INTERMEDIATE (IPC) COURSE

STUDY MATERIAL

PAPER : 5

ADVANCED ACCOUNTING

MODULE – 3

BOARD OF STUDIES

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Financial Statements of Banking Companies

Unit-1: Some Relevant Provisions of the Banking Regulations Act, 1949

Learning Objectives

After studying this unit, you will be able to:

- ♦ Understand the legal definition of banking, the composition of management team of a bank and types of banks operating in India.
- ♦ Learn the conditions to be fulfilled for obtaining a license for banking activities in India.
- ♦ Learn the provisions relating to capital, reserve, liquidity norm (Capital Reserve Ratio & Statutory Liquidity Ratio), reserve fund, dividend payment and disposal of non-banking assets.
- ♦ Try to relate such provisions with the financial information obtained from any banking companies.

1.1 Meaning of Banking

Banks are vital to the prosperity and well being of any society or country. Banks enable a society to create the platform for the satisfaction of wants of its people by managing and maintaining the flow of money to carry out transactions. The role of banks may be likened to the heart in a human being, circulating and managing money through the economy, thereby playing a crucial role for its good health.

Banks in India and their activities are regulated by the Banking Regulation Act, 1949.

Banking : Under Section 5(*b*) of the said Act "Banking" means,

- ➢ Accepting deposits of money from public for the purpose of lending
- ➢ These deposits are repayable on demand and can be withdrawn by cheque, draft or otherwise

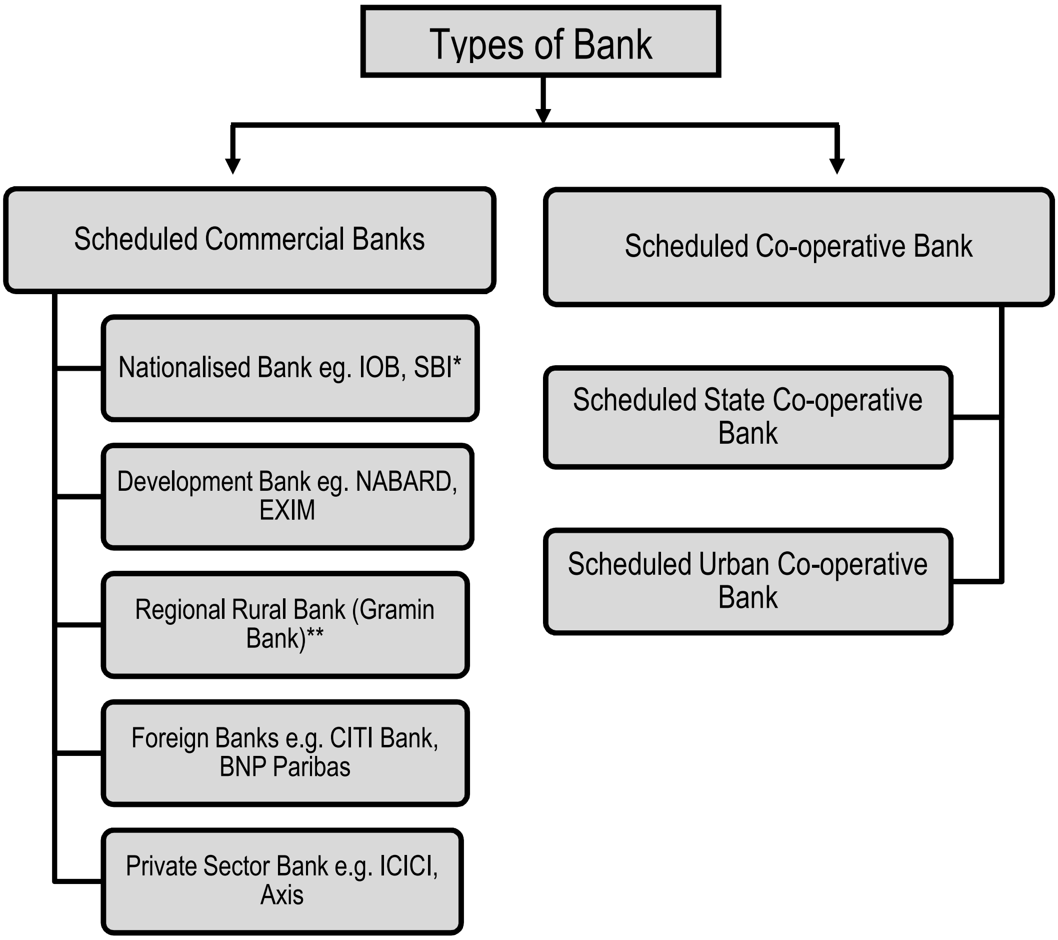
Banking Company: Any bank which transacts this business as stated in section 5 (b) of the act in India is called a banking company. However merely accepting public deposits by a company for financing its own business shall not make it a bank. It may be mentioned that the Banking Regulation Act, 1949 is not applicable to a primary agricultural society, a co-operative

land mortgage bank and any other co-operative society.

1.1.1 Types of banks: There are two main categories of Commercial Bank in India namely:-

1. Scheduled Commercial Bank
2. Scheduled Co-operative Bank

Scheduled Commercial Banks are again divided into five types and the Scheduled Co-operative Banks into two as given in the following chart.



* There are so far 26 Nationalised bank including SBI and its subsidiaries.

** There are 82 Regional Rural Banks (RRBs) as on 01.01.2012. RRB's are conceived as low cost institutions having a rural ethos, local feel and pro-poor focus.

Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. After May 1997 there are no non-scheduled

commercial banks existing in India. However there are small to tiny non-scheduled Urban Co-operative Banks also known as Nidhi's in some parts of the country.

The banks included in this schedule list should fulfill following two conditions:

1. The paid up capital and reserves in aggregate should not be less than ₹ 5 lakhs.
2. Any activity of the bank will not adversely affect the interests of depositors.

The Reserve Bank includes a bank in this schedule if it fulfils certain other conditions too.

RBI as the Central Bank is the 'Bank of Last Resort' i.e. when other commercial banks are in trouble RBI helps them out. The services provided by RBI to scheduled commercial banks includes the following:

(a) The purchase, sale, and re-discounting of certain bills of exchange, or promissory notes.

(b) Purchase and sale of foreign exchange.

(c) Purchase, sale and re-discounting of foreign bills of exchange.

(d) Making of loans and advances to scheduled banks.

(e) Maintenance of accounts of the scheduled bank in its banking department and issue department.

(f) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of Reserve Bank free of cost or at nominal rates.

1.1.2 Banking Company Business: Section 6 of the Banking Regulation Act, 1949 specifies the forms of business in which a banking company may engage. These are:

Main Business:-

(i) borrowing, raising or taking up of money, lending or advancing of money; handling in all manners Bills of exchange/hundies/promissory notes

(ii) acting as agents for any government or local authority or any other person,

(iii) contracting for public or private loans

(iii) the effecting, issuing, guaranteeing underwriting, participating in the managing and carrying out of any issue public or private, of State, municipal or other loans or of shares, stocks, debentures, debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue.

Other Business:-

(v) carrying on and transacting every kind of guarantee and indemnity business.

(vi) managing, selling and realising property which may come into the possession of the banking company in satisfaction of its claims.

(vii) acquiring and holding and generally dealing with any property or any right, title or interest in such property which may form the security for any loans and advances.

(viii) underwriting and executing trusts.

(ix) establishing and supporting or aiding in the establishment and support of institutions, funds, trusts etc.

(x) acquisition, construction, maintenance and alteration of any building and works necessary for the purpose of the banking company.

(xi) selling, improving, managing, developing, or otherwise dealing with property and rights of the company.

(xii) acquiring and undertaking whole or any part of the business of any person or company.

(xiii) doing all such other things as are incidental or conductive to the promotion or advancement of the business of the banking company.

(xiv) any other business which the Central Government may specify.

No banking company shall engage in any form of business other than those referred to above.

To summarise all the above, the functions of Commercial Bank are:

Functions of a Commercial Bank

Some of the main functions of modern commercial banks are:

(a) Receiving of money on deposit and providing facilities to constituents for payments by cheque.

(b) Dealing in securities on its own account and on account of customers.

(c) Lending of money by -

(i) making loans and advances,

(ii) purchasing or discounting of bills.

(d) Transferring money from place to place by -

(i) the issue of demand drafts, telegraphic transfers, traveller's cheques, etc.,

(ii) collection of bills.

(e) Issuing letters of credit.

(f) Safe custody of securities and valuables.

(g) Issuing guarantees.

(h) Acting as executors and trustees sometimes through subsidiary companies formed for that purpose.

(i) Buying, selling and dealing in foreign exchange.

(j) Acting as managers for issue of capital by companies and performing functions incidental thereto.

1.2 Prohibition of Trading (Section 8)

A banking company cannot directly or indirectly deal in the buying or selling or bartering of goods except in connection with the realization of security given to or held by it . However, it may buy, sell or barter goods in connection with the bills of exchange received for collection or negotiation

1.3 Disposal of Non-Banking Assets (Section 9)

A banking co in the course of its business may have to take possession of certain asset charged in its favour on account of the failure of a debtor to repay the loan. A banking company can only acquire immovable property for its own use.–However, other immovable properties acquired must be disposed off within seven years from the date of acquisition. The Reserve Bank of India at its discretion can extend this. Income/loss from such an asset has to be shown separately in the profit and loss account of the banking company. It must be noted that the banking company can retain immovable property if it is meant for the banks own use.

For Example-XYZ bank acquired car from one customer on 1st January, 2006 who defaulted in payment of dues as it was held as security. Such assets are non banking assets and bank needs to dispose of them within seven years i.e by the end of 31st December 2013.

1.4 Management (Section 10)

Management of a Bank comes under its Board of Directors.

Under section 10(a), not less than 51% of the total number of members of the board of directors of a banking company shall consist of persons having special knowledge or practical experience in one or more of the following fields:

1. Accountancy.
2. Agriculture and rural economy.
3. Banking.
4. Co-operation.
5. Economics.
6. Finance.
7. Law.
8. Small scale industry.

It is also required not less than two directors should have special knowledge or practical experience in respect of agriculture and rural economy and co-operation or small-scale industry.

Under section 10(*b*)(1), every banking company shall have one of its directors as Chairman of its board of directors. The Chairman is entrusted with the management of the whole of the affairs of the banking company. Such Chairman is the whole-time employee of the banking company and can hold office for a period not exceeding five years. Other directors who are whole-time directors can hold office continuously for a period not exceeding eight years.

1.5 Capital and Reserve

***Requirement as to minimum paid-up capital and reserve (Section 11)*:**

- In the case of a banking company incorporated outside India and having a place or places of business in the city of Bombay or Calcutta or both, the aggregate value of its paid-up capital and reserve shall not be less than ₹ 20 lacs.
- Any banking company incorporated outside India and having a place or places of business in other cities shall have aggregate value of paid-up capital and reserves amounting to ₹ 15 lacs or more.
- In case of any banking company incorporated in India having places of business in more than one State including any such place or places of business situated in the city of Bombay or Calcutta or both, the aggregate value of its paid-up capital and reserves shall not be less than ₹ 10 lacs.
- In case of a banking company incorporated in India and having all its places of business in one State and none of which is situated in the city of Bombay or Calcutta, the aggregate value of its paid-up capital and reserves shall be ₹ 1 lakh in respect of all its principal places of business plus ₹ 10,000 in respect of each of its other places of business situated in the same district in which it has its principal place of business plus ₹ 25,000 in respect of each place of business situated elsewhere in the State (however, such banking company does not need to maintain the aggregate value of paid-up capital and reserve more than ₹ 5 lacs).
- Any banking company incorporated outside India is required to deposit with the Reserve Bank either in cash or in the form of unencumbered approved securities or partly in cash and partly in securities, the minimum amount of paid-up capital and reserves which it has to maintain under section 11(2).

***Regulation relating to authorized capital, subscribed capital and paid-up capital (Section 12)*:** The subscribed capital of a banking company carrying on business in India shall not be less than one-half of the authorised capital and the paid-up capital shall not be less than one-half of the subscribed capital. The capital of the banking company consists of ordinary shares or equity shares and such preference shares which have been issued prior to the first day of July, 1944. The voting right of any single shareholder on a poll cannot exceed 10% of the total voting rights.

Under section 13 of the Banking Regulation Act a banking company cannot pay out directly or indirectly commission, brokerage, discount, or remuneration in respect of any shares issued by it, an amount exceeding two and one-half per cent of the paid-up value of such shares.

1.6 Reserve Funds (Section 17)

Every banking company incorporated in India is required to create a Reserve Fund and to **transfer at least 25% of its profit to the reserve fund**. The profit of the year as per the profit and loss account prepared under Section 29 is to be taken as base for the purpose of such

transfer and transfer to reserve fund should be made before declaration of any dividend.

If any banking company makes any appropriation from the reserve fund or share premium account, it has to report to the Reserve Bank of India the reasons for such appropriation within 21 days.

Note: Students shall ensure that 25% of the profit earned during current year is transferred as Statutory Reserve even if the question is silent on the issue in the examination question.

1.7 Restriction as to Payment of Dividend

Before paying any dividend, a banking company has to **write off completely** all its capitalised expenses including preliminary expenses, organisation expenses, share-selling commission, brokerage, and amounts of losses incurred by tangible assets. However, a banking company may pay dividend on its shares without writing off -

1. the depreciation in the value of its investment in approved securities in any case where such depreciation has not actually been capitalised or accounted for as a loss.
2. the depreciation in the value of its investment in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company.
3. the bad debts in any case where adequate provision for such debts had been made to the satisfaction of the auditor of the banking company.

1.8 Cash Reserve (Section 18)

For smoothly meeting cash payment requirement, banks have to maintain certain minimum ready cash balances at all times. This is called as Cash Reserve Ratio (CRR)

Cash reserve can be maintained by way of either a cash reserve with itself or as balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.

Every Scheduled Commercial Bank has to maintain cash reserve ratio (i.e. CRR) as per direction of the RBI issued under Section 42(IA) of the Reserve Bank of India Act, 1934.

The current Cash Reserve Ratio (CRR) is 4% of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76 /12.01.001/2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

Demand and Time Liabilities

Demand Liabilities of a bank are liabilities which are payable on demand. These include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfers (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and

deposits held as security for advances which are payable on demand. Money at Call and Short Notice from outside the Banking System should be shown against liability to others.

Time Liabilities of a bank are those which are payable otherwise than on demand. These include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit, if not payable on demand, deposits held as securities for advances which are not payable on demand and Gold deposits.

Other Demand and Time Liabilities (ODTL)

ODTL include interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the banking system which are not in the nature of deposits or borrowing. Such liabilities may arise due to items like (i) collection of bills on behalf of other banks, (ii) interest due to other banks and so on. If a bank cannot segregate the liabilities to the banking system, from the total of ODTL, the entire ODTL may be shown against item II (c) 'Other Demand and Time Liabilities' of the return in Form 'A' and average CRR maintained on it by all SCBs .

Participation Certificates issued to other banks, the balances outstanding in the blocked account pertaining to segregated outstanding credit entries for more than 5 years in inter-branch adjustment account, the margin money on bills purchased / discounted and gold borrowed by banks from abroad, also should be included in ODTL.

Cash collaterals received under collateralized derivative transactions should be included in the bank's DTL/NDTL for the purpose of reserve requirements as these are in the nature of 'outside liabilities'.

1.9 Licensing of Banking Companies (Section 22)

A banking company can function in India only if it holds a licence issued by the Reserve Bank of India and included in the Second Schedule of the RBI Act. Before granting any licence, the Reserve Bank of India has to be satisfied that the following conditions have been complied with:

Financial Requirement:

The initial minimum paid-up capital for a new bank shall be ₹ 200 crore. The initial capital will be raised to ₹ 300 crore within three years of commencement of business. The overall capital structure of the proposed bank including the authorised capital shall be approved by the RBI.

Other Requirement:

In addition to the financial requirement the Reserve Bank of India would need to satisfy about the other additional requirements:

(a) That the company is or will be in a position to pay its present or future depositors in full as their claims accrue.

(b) That the affairs of the company are not being conducted or are not likely to be conducted

in a manner detrimental to the interest of its present or future depositors.

(c) That the general character of the proposed management of the company will not be prejudicial to the public interest of its present or future depositors.

(d) That the company has adequate capital structure and earning prospects.

(e) That the public interest will be served by the grant of a licence to the company to carry on banking business in India.

(f) That having regard to the banking facilities available in the proposed principal area of banks already in existence in the area and other relevant factors, the grant of the licence would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth.

Similarly, prior permission of the Reserve Bank of India is necessary to open a new branch of bank in India or to change the existing place of business situated in India. Also, no banking company incorporated in India can open a branch outside India or change the existing place of business without prior permission of the Reserve Bank of India.

1.10 Liquidity Norms (Section 24)

Banking companies have to maintain sufficient liquid assets in the normal course of business called as Statutory Liquidity Ratio (SLR). This safeguards the interest of depositors and prevents banks from over-extending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain the SLR in the form of:

1. cash
2. gold
3. unencumbered approved securities.

The above assets have to be held at the close of business on any day and shall be valued at a price not exceeding the current market price of the above assets. At present, SLR should not be less than ***21.5%***• of its demand and time liabilities in India. However, this percentage is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the Cash Reserve Ratio balance which a scheduled bank is required to maintain under Section 42 of the Reserve Bank of India Act.

1.11 Restriction on Acquisition of Shares in Other Company

A banking company **cannot form any subsidiary** except for one or more of the following purposes:

1. The undertaking of any business permissible for banking company to undertake.

• ***RBI revises this rate time to time. The present SLR is as per Notification No. DBOD. No. Ret. BC. 70./12.02.001/2014.15 dated February, 3, 2015.***

2. Carrying on business of banking, exclusively outside India with previous permission in writing, of the Reserve Bank.
3. The undertaking of such other business which the Reserve Bank of India may permit with prior approval of the Central Government.

Other than formation of such subsidiary companies as mentioned above, a banking company cannot hold shares in any company either as pledge, mortgage, or absolute owner of an amount not exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less.

1.12 Restriction on Loans and Advances

Under Section 20 of the Banking Regulations Act, a banking company shall not grant any loans or advances on the security of its own shares. Further, it cannot enter into any commitment for granting any loan or advance to or on behalf of -

(i) any of its directors.

(ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor.

(iii) any company other than the subsidiary of the banking company, or a company which is entitled to dispense with the use of the word Ltd in its name under the Companies Act, or a Government company of which any of the directors of the banking company is a director, manager, employee or guarantor or in which he holds substantial interest.

(iv) any individual in respect of whom any of its directors is a partner or a guarantor.

1.13 Prohibition of Charge on Unpaid Capital and Floating Charge on Assets

Under Section 14 of the Banking Regulation Act, no banking company shall create any charge upon any unpaid capital of the company, and any charge if created shall be invalid. A banking company also cannot create a floating charge on the undertaking or any property of the company or any part thereof unless the creation of such floating charge is certified in writing by the Reserve Bank as not being detrimental to the interest of the depositors of such company (Section 14A). Any charge created without obtaining the certificate from the RBI as above shall be invalid (Sec 14 A (2).

1.14 Unclaimed Deposits

Under Section 26 of the Banking Regulations Act, every banking company is required to submit a return in the prescribed form and manner, to the Reserve Bank of India at the end of each calendar year, of all accounts in India which have not beeen operated for 10 years. This report is to be submitted within 30 days after the close of each calendar year. In case of fixed deposit, such 10 years are to be reckoned from the date of expiry of the fixed deposit period.

1.15 Accounts and Audit

Sections 29 to 34A of the Banking Regulation Act deal with accounts and audit of Banking Companies. At the end of each calendar year or at the expiration of twelve months ending on such date as the Central Government may specify in this regard, every banking company incorporated in India, in respect of business transacted by it, and every banking company incorporated outside India, in respect of business transacted by its branches in India, shall prepare with reference to that year or period, a Balance Sheet (Form A) and Profit and Loss Account (Form B) as on the last working day of that year or the period in the forms set out in the Third Schedule of Banking Regulation Act.

The Balance Sheet and the Profit and Loss Account must be signed by the manager or principal officer and by at least three directors or all directors if there are not more than three directors in case of a banking company incorporated in India. In case of a banking company incorporated outside India, the statement of accounts must be signed by the manager or agent of the principal office of the company in India.

Under Section 30 of the Banking Regulation Act, the Balance Sheet and Profit and Loss Account prepared in accordance with Section 29 shall be audited by a person duly qualified under any law for the time being in force to be an auditor of companies. Every banking company is required to take previous approval of the Reserve Bank of India before appointing, re-appointing or removing any auditor or auditors. In addition, the Reserve Bank can order special audit of the banking companies accounts if it thinks fit in the public interest of the banking company or its depositors.

Unit – 2 : Books of Accounts, Returns and Forms of Financial Statements

Learning Objectives

After studying this unit, you will be able to:

- Learn the main characteristics of a bank's system of book keeping.
- Understand the methods in which all detailed accounts in subsidiary books and principal books are maintained by a bank and their purposes.
- Make a list of various other registers, departmental journals and memorandum books generally maintained by a bank.
- Familiarize with the monthly, quarterly and annual returns filed by a bank to the RBI.
- Appreciate the formats of Banks Financial Statements in Form A for Balance Sheet and Form B for Profit and Loss Statement of the Banking Regulation Act.

2.1 Main Characteristics of a Bank's Book-Keeping System

The book-keeping system of a banking company is substantially different from that of a trading or manufacturing enterprise. A bank maintains a large number of accounts of various types for its customers. As a safeguard against any payment being made in the account of a customer in excess of the amount standing to his credit or a cheque of a customer being dishonoured due to a mistake in the balance in his account, it is necessary that customers' accounts should be kept up-to-date and checked regularly. In many other mercantile enterprises, books of primary entry (*i.e.,* day books) are generally kept up-to- date while their ledgers including the general ledger and subsidiary ledgers for debtors, creditors etc. are written afterwards. However a bank cannot afford to ignore its ledgers, particularly those concerning the accounts of its customers and has to enter into the ledgers every transactions as soon as it takes place. In bank accounting, relatively less emphasis is placed on day books. These are merely treated as a means to an end-the end being to keep up-to-date detailed ledgers and to balance the trial balance everyday and to keep all control accounts in agreement with the detailed ledgers.

Presently most if not all of the Banks' accounting is done on Core Banking Solutions (CBS) wherein all accounts are maintained on huge servers with posting being effected instantly through vouchers, debit cards, internet banking etc.

The main characteristics of a bank's system of book-keeping are as follows:

(a) **Voucher posting** – Vouchers are nothing but loose leaves of journals or cash books on which transactions are recorded as they occur. Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry.

(b) **Voucher summary sheets** - The vouchers entered into different personal ledgers each day are summarised on summary sheets, totals of which are posted to the control accounts in the general ledger.

(c) **Daily trial balance** - The general ledger trial balance is extracted and agreed every- day.

(d) **Continuous checks** - All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins.

(e) **Control Accounts** - A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts.

(f) **Double voucher system** - Two vouchers are prepared for every transaction not involving cash - one debit voucher and another credit voucher.

2.1.1 Slip (or Voucher) System of Ledger Posting

The bank has to ensure that customers (depositors) ledger accounts are up-to-date so that when a cheque is presented to the bank for payment, the bank can immediately decide whether to honour or dishonour the cheque. It is therefore necessary that transactions in the bank are immediately recorded or are updated online.

For this purpose slip system of ledger posting is adopted. Under this system entries are made in the (personal) accounts of customers in the ledger directly from various slips rather than from subsidiary books or journals and then a Day Book is written up. Subsequently, entries in the accounts of the customers are tallied with the Day Book. In this way the posting in the ledger accounts and writing of the day-book can be carried out simultaneously without any loss of time. A slip is also called voucher.

In general, the types of slips used in bank book-keeping are: pay-in-slips, cheques or withdrawal forms.

As these slips are filled by the customers there is much saving of time and labour of the employees of the bank.

(a) **Pay-in-slip :** When a customer deposits money with a bank, he has to fill-up a printed pay-in-slip form and submit it to the **'receiving cashier'** of the bank along with cash. The form of pay-in-slip has two parts. The left-hand side portion of the pay-in-slip is called **'counterfoil'.** It is returned by the receiving cashier after he receives and counts the cash. The counterfoil bears signature of the receiving cashier and it is duly stamped with the rubber stamp of the bank. Pay-in-slip serves as an acknowledgement of the deposit by the customer with the bank. The remaining portion of pay-in-slip that is, its right-hand-side part remains with the bank for making entry in the cash book, after which it is given to the 'personal accounts ledger keeper' for crediting the ledger account of the customer. However, with the advancement of banking through computerization, these days the cheques can be deposited merely by writing the account number of the depositor on the back of the cheque. Similarly cash can be deposited through ATMs (Automatic Teller Machines). In such cases, the documents used for entries are the cheques deposited and the deposit slips in the ATMs.

(b) Withdrawal slip or cheque: When a customer withdraws money from the bank, he has to fill-up or write a cheque or withdrawal form and submit it to the paying cashier who makes payment, after checking the signature of the customer and adequacy of amount in his ledger account. The paying cashier credits the cash account and the ledger-keeper debits the customer's account. These days the cashier may himself debit the customer's account in the computer based ledger immediately before making the payment.

(c) Dockets: Sometimes the bank staff also prepares slips for making entries in the ledger accounts for which there are no original vouchers. For example, the loan department of a bank prepares vouchers when the interest is due. This slip or voucher is known as docket.

2.1.2 Need of the Slip System

The need for slip system arises due to following reasons :

(i) Updated Accurate Accounts: The bank must keep its customers' accounts accurate and up-to-date because a customer may present a cheque or withdrawal slip anytime during business hours of the bank.

(ii) Division of Work: As the number of transactions in bank is very large, the slip system permits the distribution of work of posting simultaneously among many persons of the bank staff.

(iii) Smooth Flow of Work: The accounting work moves smoothly without any interruption.

However, as mentioned above these days due to complete computerization of the banking sector, pay in slips are not used in may banks.

2.2 Principal Books of Accounts

a) **The General ledger** contains accounts of all personal ledgers, the profit and loss account and different asset accounts. The accounts in the general ledger are arranged in such an order that a balance sheet can be readily prepared therefrom. There are certain additional accounts known as contra accounts which are a feature of bank accounting. These are kept with a view to keep control over transactions which have no direct effect on the bank's position *e.g.,* letters of credit opened, bills received or sent for collection, guarantees given, etc.

b) **Profit and loss ledger -** Some banks keep one account for profit and loss in the General Ledger and maintain separate books for the detailed accounts. These are columnar books having separate columns for each revenue or expense head. Other banks maintain separate books for debits and credits. These books are posted from vouchers. The total of debits and credits posted are entered into the Profit and Loss Account in the General Ledger. In some banks, the revenue accounts are also maintained in the General Ledger itself, while in some others broad revenue heads are kept in the General Ledger and their details are kept in subsidiary ledgers.

For management purposes the account heads in the Profit and Loss ledgers are more detailed than those shown in the published Profit and Loss Account of the bank. For example, there will be separate accounts for basic salary, dearness allowance and various other allowances, which are grouped together in the final accounts. Similarly, various accounts concerning general charges, interest paid, interest received, etc., are maintained separately in the Profit and Loss ledgers.

2.3 Subsidiary Books

(a) Personal Ledgers - Separate ledgers are maintained by a bank for different types of accounts. For example, there are separate ledgers for Current Accounts, Fixed Deposits (often further classified by length of period of deposit), Cash Certificates, Loans, Overdrafts, etc. As has been mentioned earlier, these ledgers are posted directly from vouchers, and all the vouchers entered in each ledger in a day are summarised into voucher summary sheets. The voucher summary sheets are prepared in the department which originates the transaction, by persons other than those who write the ledgers. They are subsequently checked with the vouchers by different persons generally unconnected with the writing up of ledgers on the Voucher Summary Sheets.

(b) Bill Registers - Details of different types of bills are kept in separate registers which have suitable columns. For example, bills purchased, inward bills for collection, outward bills for collection etc. are entered serially on day-to-day basis in separate registers. In case of bills purchased or discounted, party-wise details are also kept in normal ledger form. This is done to ensure that the sanctioned limits of parties are not exceeded.

Entries in these registers are made by reference to the original documents. A voucher for the total amount of the transaction of each day is prepared in respect of each register. This voucher is entered in the Day Book. When a bill is realised or returned, its original entry in the register is marked off. A daily summary of such realisations or returns is prepared in separate registers whose totals are taken to vouchers which are posted in the Day Book.

In respect of bills for collection, contra vouchers reflecting both sides of the transaction are prepared at the time of the original entry, and this is reversed on realisation.

Outstanding entries are summarised frequently, usually twice a month, and their total is agreed with the balance of the respective control accounts in the General Ledger.

2.4 Other Subsidiary Registers

There are different registers for various types of transactions. Their number, volume and details will differ according to the individual needs of each bank. For example, there will be registers for :-

(a) Demand Drafts, Telegraphic Transfers and Mail Transfers issued on Branches and Agencies.

(b) Demand drafts, Telegraphic Transfers and Mail Transfers received from Branches and Agencies.

(c) Letters of Credit.

(d) Letters of Guarantee.

Entries into these registers are made from original documents which are also summarized on vouchers everyday. These vouchers are posted into Day Book.

Outstanding entries are summarised frequently and their total agreed with the control heads in the General ledger.

2.5 Departmental Journals

Each department of the Bank maintains a journal to note the transfer entries passed by it. These journals are memoranda books only, as all the entries made there are also made in the Day Book through Voucher Summary Sheets. Their purpose is to maintain a record of all the transfer entries originated by each department. For example, the Loans and Overdraft Section will pass transfer entries for interest charged on various accounts every month, and as all these entries will be posted in the journal of that department, the office concerned can easily find out the accounts in respect of which the interest entry has been passed. Since all vouchers passed during the day are entered into the Day Book only in a summary form, it may not be possible to get this information from the Day Book without looking into the individual vouchers. Moreover, as the number of departments in banks is quite large, the Day Book may not be accessible at all times to all departments.

As has been mentioned earlier, two vouchers are generally made for each transaction by transfer entry, one for debit and the other for credit. The vouchers are generally made by and entered into the journal of the department which is affording credit to the other department. For example, if any amount is to be transferred from Current Account of a customer to his Saving Bank Account, the voucher will be prepared by the Current Accounts Department and entered in the journal of that department.

2.6 Other Memorandum Books

Besides the books mentioned above, various departments of the bank have to maintain a number of memoranda books to facilitate their work. Some of the important books are described below :-

a) Cash Department

(a) Receiving Cashiers' cash book

(b) Paying Cashiers' cash book

(c) Main cash book

(d) Cash Balance book

The main Cash Book is maintained by persons other than the cashiers. Each cashier keeps a separate cash book. When cash is received, it is accompanied by pay-in-slip or other similar document. The cashier makes the entry in his book which is checked by the chief cashier. The

pay-in-slip then goes to the Main Cash Book writer who makes an entry in his books. The cash book checker checks the entry with the slip and then the counter-foil of the slip is returned back to the customer and the foil is sent to the appropriate department for entering into the ledger. The foil is used as a voucher. Cash is paid against a cheque or other document (e.g. traveller's cheque, demand draft, pay order, etc.) after it has been duly passed and entered in the appropriate account in the ledger. Cheques, demand drafts, pay orders, etc. are themselves used as vouchers.

b) Quick Payment System - Banks introduce different systems so that their customers may receive payment of cash etc. quickly. The most prevalent system is the teller system. Under this system tellers keep cash as well as ledger cards and the specimen signature cards of each customer in respect of Current and Saving Bank Accounts. A teller is authorised to make payment upto a particular amount, say, ₹ 10,000. On receipt of the cheque, he verifies it, passes it for payment, then enters it in the ledger card and makes the payment to customer. The teller also receives cash deposited in these accounts.

c) Outward Clearing: (i) A Clearing Cheque Received Book for entering cheques received from customers for clearing.

(ii) Bankwise list of the above cheques, one copy of which is sent to the Clearing House together with the cheques.

A person checks the vouchers (foil of pay-in slips) and lists with the Clearing Cheque Received Book. The vouchers are then sent to appropriate departments, where customers' accounts are immediately credited. If any cheque is received back unpaid the entry is reversed. Normally, no drawings are allowed against clearing cheques deposited on the same day but exceptions are often made by the manager in the case of established customers.

d) Inward Clearing - Cheques received are verified with the accompanying lists. They are then distributed to different departments and the number of cheques given to each department is noted in a Memo Book. When the cheques are passed and posted into ledgers, their number is independently agreed with the Memo Book. If any cheques are found unpayable, they are returned back to the Clearing House. The cheques themselves serve as vouchers.

e) Loans & Overdraft Departments

(a) Registers for shares and other securities held on behalf of each customer.

(b) Summary Books of Securities giving details of Government securities, shares of individual companies etc.

(c) Godown registers maintained by the godown-keeper of the bank.

(d) Price register giving the wholesale price of the commodities pledged with the bank.

(e) Overdraft Sanction register.

(f) Drawing Power book.

(g) Delivery Order books.

(h) Storage books.

f) Deposits Department

(a) Account Opening & Closing registers.

(b) For Fixed Deposits, Rate register giving analysis of deposits according to rates.

(c) Due Date Diary.

(d) Specimen signature book.

g) Establishment department

(a) Salary and allied registers, such as attendance register, leave register, overtime register, etc.

(b) Register of fixed assets, e.g., furnitures and fixtures, motor cars, vehicles, etc.

(c) Stationery registers.

(d) Old records register.

h) General

(a) Signature book of bank's officers.

(b) Private Telegraphic Code and Cyphers.

2.7 Statistical Books

Statistical records kept by different banks are in accordance with their individual needs. For example, there may be books for recording (*i*) average balance in loans and advances etc., (*ii*) Deposits received and amount paid out each month in the various departments, (*iii*) Number of cheques paid, (*iv*) Number of cheques, bills and other items collected.

The above is not an exhaustive list of accounting records kept by a bank.

2.8 Forms of Balance Sheet and Profit and Loss Account

The Committee under the Chairmanship of Shri A. Ghosh, Deputy Governor, RBI, after due deliberation suggested suitable changes/amendments in the forms of balance sheet and profit and loss account of banks, having regard to :

1. need for better disclosure
2. expansion of banking operations both area-wise and sector-wise over the period
3. need for improving the presentation of accounts etc.

The formats are given below as specified in Banking Regulation Act in Form A of Balance Sheet, Form B of Profit and Loss Account and eighteen other schedules of which the last two relates to Notes and Accounting Policies.

New Revised Formats
The Third Schedule
(See Section 29)

Form 'A'

Form of Balance Sheet

Balance Sheet of ______________________ (here enter name of the Banking company)

Balance Sheet as on 31st March (Year) (000's omitted)

	Schedule	As on 31.3.... (Current year)	As on 31.3...... (Previous year)
Capital & Liabilities			
Capital	1		
Reserve & Surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
Total			
Assets			
Cash and balances with Reserve Bank of India	6		
Balance with banks and Money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total			
Contingent liabilities	12		
Bills for collection			

Refer Annexure I for detailed break up of the Balance Sheet schedules at the end of chapter

Form 'B'
Form of Profit & Loss Account
for the year ended 31st March

('000 omitted)

		Schedule	Year ended As on 31.3.... (Current year)	Year ended As on 31.3.... (Previous year)
I.	**Income**			
	Interest earned	13		
	Other income	14		
	Total			
II.	**Expenditure**			
	Interest expended	15		
	Operating expenses	16		
	Provisions and contingencies			
	Total			
III.	**Profit/Loss**			
	Net profit/loss (—) for the year			
	Profit/Loss (—) brought forward			
	Total			
IV.	**Appropriations**			
	Transfer to statutory reserves			
	Transfer to other reserves			
	Transfer to Government/Proposed dividends			
	Balance carried over to balance sheet			
	Total			

Refer Annexure II for detailed break up of the Profit and Loss Account schedules at the end of the chapter. Also detail guidelines of RBI for compilation of Financial Statements has been given in Annexure III.

Note: The Banking Regulations Act, 1949 prescribes Schedules 1 to 16 only. Any other schedule prepared by a Banking company besides what is specified in the Third schedule of the Banking Regulations Act, 1949, is only for better understanding of their financial statements. Accordingly, banks in addition to the above 16 schedules, may prepare Schedule 17 for Notes on Accounts and Schedule 18 for Disclosure of Accounting Policies.

2.9 Notes on Accounts

Capital adequacy ratio	The sum of Tier I and Tier II capital should be taken as the numerator while the denominator should be arrived at by converting the minimum capital charge for open exchange position stipulated by the Exchange Control Department of the 'notional risk assets' by multiplying it by 12.5 (the reciprocal of the minimum capital to risk-weighted assets ratio of 8%) and then adding the resulting figure to the weighted assets, compiled for credit risk purposes.
Capital adequacy ratio – Tier I Capital	Tier I capital should be taken as the numerator while the denominator should be arrived at by converting the minimum capital charge for open exchange position stipulated by the Exchange Control Department of the RBI into 'notional risk assets' by multiplying it by 25 (the reciprocal of the minimum capital to risk-weighted assets ratio of 4%) and then adding the resulting figure to the weighted assets, compiled for credit risk purposes.
Capital adequacy ratio-Tier II Capital Amount of subordinated debt raised as Tier II capital	This item should be shown by way of explanatory notes/remarks in the balance sheet as well as in Schedule 5 relating to 'Other Liabilities and Provisions'.
Percentage of shareholding of the Government of India in the nationalized banks	
Gross value of investments in India and outside India, the aggregate of provisions for depreciation separately on investments in India and outside India and the net value of investments in India and outside India	
Percentage of net NPAs to net advances	Net NPAs mean gross NPAs *minus* (balance in Interest Suspense Account *plus* ECGC claims received and held pending adjustment *plus* part payment received and kept in Suspense Account *plus* provisions held for loan losses).

Movements in NPAs	The disclosures should include the opening balances of Gross NPAs (after deducting provisions held, interest suspense account, ECGC claims received and part payments received and kept in suspense account) at the beginning of the year, reductions/additions to the NPAs during the year and the balances at the end of the year.
The amount of provisions made towards NPA, toward depreciation in the value of investments and the provisions towards tax during the year	These provisions along with other provisions and contingencies should tally with the aggregate of the amount held under 'Provisions and income-contingencies' in the profit and loss account.
Maturity pattern of investment securities	Banks may follow the maturity buckets prescribed in the guidelines on Assets-Liability Management System for disclosure of maturity pattern.
Maturity pattern of loans and advances	Banks may follow the maturity buckets prescribed in the guidelines on Assets-Liability Management System for disclosure of maturity pattern.
Foreign currency assets and liabilities	In respect of this item, the maturity profile of the bank's foreign currency liabilities should be given.
Maturity pattern of deposits	Banks may follow the maturity buckets prescribed in the guidelines on Asset-Liability Management System for disclosure of maturity pattern.
Maturity pattern of borrowings	Banks may follow the maturity buckets prescribed in the guidelines on Asset-Liability Management System for disclosure of maturity pattern.
Lending to sensitive sectors	Banks should disclose lending to sectors which are sensitive to asset price fluctuations. These should include advances to sectors such as capital market, estate, etc. and such other sectors to be defined as 'sensitive' by the RBI from time to time.
Interest income as a percentage to working funds	Working funds mean total assets as on the date of balance sheet (excluding accumulated losses, if any).
Non-interest income as a percentage to working funds	
Operating profit as a percentage to (interest working funds	Operating profit means total income minus expenses plus operating expenses etc.)

Return on assets	Return on assets means net profit divided by average of total assets as at the beginning and end of the year.
Business (deposits plus advances) per employee	This means fortnightly average of deposits (excluding inter-bank deposits) and advances divided by number of employees as on the date of balance sheet.

Profit per employee

Depreciation on Investments	As per RBI Circular, bank should make disclosure on the provision for depreciation on investments in the following formats. Opening Balance (as on April, 01) …………………… Add: Provisions made during the year: ………………. Less: Write-off/back of excess provisions during the year ……. Closing balance (as on March 31) ……………..
Corporate Debut Restructured Accounts	Banks should disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of corporate debt restructuring undertaken during the year. a. Total amount of loan assets subjected to restructuring under CDR. [(a) = (b)+(c) +(d)] b. The amount of standard assets subjected to CDR. c. The amount of sub-standard assets subjected to CDR. d. The amount of doubtful assets subjected to CDR. Disclosures in the Notes on Account to the Balance Sheet pertaining to restructured / rescheduled accounts apply to all accounts restructured/rescheduled during the year. While banks should ensure that they comply with the minimum disclosures prescribed, they may make more disclosures than the minimum prescribed.
Non SLR Investment	Banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non SLR investment portfolio.

Issuer Composition of Non SLR Investments						
No.	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated Securities	Extent of 'unlisted securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	PSUs					
2.	FIs					
3.	Banks					
4.	Private corporate					
5.	Subsidiaries/Joint Ventures					
6.	Others					
7.	Provision held towards depreciation		XXX	XXX	XXX	XXX
	Total					

Note:

1. Total under column 3 should tally with the total of investments included under the following categories in Schedule 8 to the balance sheet:
   a. Shares
   b. Debentures & Bonds
   c. Subsidiaries/Joint Ventures
   d. Others
2. Amounts reported under columns 4,5,6 and 7 above may not be mutually exclusive.

Non performing non-SLR investments

Particulars	Amount (₹ *Crore)*
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

The bank should make appropriate disclosures in the "Notes on Account" to the annual financial statements in respect of the exposures where the bank had exceeded the prudential exposure limits during the year.

Notes and Instructions for Compilation

General instructions

1. Formats of Balance Sheet and Profit and Loss Account cover all items likely to appear in the statements. In case a bank does not have any particular item to report, it may be omitted from the formats.
2. Corresponding comparative figures for the previous year are to be disclosed as indicated in the format. The words "current year" and "previous year" used in the format are only to indicate the order of presentation and may appear in the accounts.
3. Figures should be rounded off to the nearest thousand rupees.
4. Unless otherwise indicated, the banks in these statements will include banking companies, nationalised banks, State Bank of India, Associate Banks and all other institutions including co-operatives carrying on the business of banking whether or not incorporated or operating in India.
5. The Hindi version of the balance sheet will be part of the annual report.

2.10 Disclosure of Accounting Policies

In order to bring the true financial position of banks to pointed focus and enable the users of financial statements to study and have a meaningful comparison of their positions, the banks should disclose the accounting policies regarding key areas of operation at one place along with notes on accounting in their financial statements. The RBI has taken several steps from time to time to enhance the transparency in the operations of banks by stipulating comprehensive disclosures in tune with international best practices. RBI has prescribed the following additional disclosures in the 'Notes to accounts' in the banks' balance sheets, from the year ending March, 2010:

(i) Concentration of Deposits, Advanced, Exposures and NPAs;

(ii) Sector-wise NPAs;

(iii) Movement of NPAs;

(iv) Overseas assets, NPAs and revenue;

(v) Off-balance sheet SPVs sponsored by banks.

Unit – 3 : Capital Adequacy Norms

Learning Objectives

After studying this unit, you will be able to understand

Definitions of capital funds (Tier I & Tier II)and minimum capital requirement,

Technique of computing weightage for the purpose of capital adequacy norms

3.1 Capital Framework of Banks Functioning in India

Capital adequacy is used to describe adequacy of capital resources of a bank in relation to the risks associated with its operations.

Capital Adequacy Ratio (CAR)

The Basel Committee on Banking Supervision had published the first Basel Capital Accord (popularly called as Basel I framework) in July, 1988 prescribing minimum capital adequacy requirements in banks for maintaining the soundness and stability of the International Banking System and to diminish existing source of competitive inequality among international banks. After Basel I framework, Basel II norms were released. The main objectives of Basel committee were:

(i) to stop reckless lending by bank

(ii) to strengthen the soundness and stability of the banking system and

(iii) to have a comparative footing of the banks of different countries.

With a view to adopting the Basle Committee on Banking Supervision (BCBS) framework on capital adequacy which takes into account the elements of credit risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, Reserve Bank of India decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in India as a capital adequacy measure. Having regard to the necessary upgradation of risk management framework as also capital efficiency likely to accrue to the banks by adoption of the advanced approaches envisaged under the Basel II Framework and the emerging international trend in this regard, in July 2009 it was considered desirable to lay down a timeframe for implementation of the advanced approaches in India.

Consequently, the Basel Committee on Banking Supervision (BCBS) released comprehensive reform package entitled “Basel III: A global regulatory framework for more resilient banks and banking systems” (known as Basel III capital regulations) in December 2010. Basel III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress. These new global regulatory and supervisory standards mainly seek to raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis, increase the risk coverage of the capital framework, introduce leverage ratio to serve as a backstop to the risk-based capital measure, raise the standards for the supervisory review process etc. Reserve Bank issued

Guidelines based on the Basel III reforms on capital regulation on May 2, 2012, to the extent applicable to banks operating in India. The Basel III capital regulation has been implemented from April 1, 2013 in India in phases and it will be fully implemented as on March 31, 2018.

***NOTE*: The capital adequacy norms given in this unit are as per existing Basel II norms. RBI requires Banks to maintain minimum capital risk adequacy ratio of 9 % on an ongoing basis*.**

Every bank should maintain a minimum capital adequacy ratio based on capital funds and risk assets. As per the prudential norms, all Indian scheduled commercial banks (excluding regional rural banks) as well as foreign banks operating in India are required to maintain capital adequacy ratio (or capital to Risk Weighted Assets Ratio) which is specified by RBI from time to time. At present capital adequacy ratio is 9%.

The capital adequacy ratio is worked out as below :

$$\frac{\text{Capital fund **}}{\text{Risk weighted assets} + \text{off balance sheet items}} \text{ X } 100$$

** Capital Fund consists of Tier I & Tier II Capital

The CAR measures financial solvency of Indian and foreign banks. Under Basel II norms, Banks can lend only about 22 times of their core Capital.

3.2 Capital Funds

Capital is divided into two tiers according to the characteristics/qualities of each qualifying instrument. Tier I capital consists mainly of share capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover losses.

Tier II capital on the other hand consists of certain reserves and certain types of subordinated debt. The loss absorption capacity of Tier II capital is lower than that of Tier I capital. When returns of the investors of the capital issues are counter guaranteed by the bank, such investments will not be considered as Tier I/II regulatory capital for the purpose of capital adequacy.

3.3 Tier-I and Tier-II Capital for Indian Banks

Tier I capital (also known are core capital) provides the most permanent and readily available support to a bank against unexpected losses.

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* ***RBI has issued a master circular No. DBOD.No.BP.BC.5/21.06.001/2014/15 dated July 1, 2014 on "Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework (NCAF)".***

3.3.1 Tier I capital

The elements of Tier I capital include

(i) Paid-up capital (ordinary shares), statutory reserves, and other disclosed free reserves, including share premium if any.

(ii) Perpetual Non-cumulative Preference Shares (PNCPS) eligible for inclusion as Tier I capital - subject to laws in force from time to time.

(iii) Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier I capital, and

(iv) Capital reserves representing surplus arising out of sale proceeds of assets.

As reduced by :

- intangible assets.
- current and brought forward losses.
- Deferred Tax Asset (DTA)
- Creation of DTA results in an increase in Tier I capital of a bank without any tangible asset being added to the banks' balance sheet. Therefore, DTA, which is an intangible asset, should be deducted from Tier I capital.

3.3.2 Tier II capital: comprises elements that are less permanent in nature or are less readily available than those comprising Tier I capital. The elements comprising Tier II capital are as follows :

(a) Undisclosed reserves

(b) Revaluation reserves

(c) General provisions and loss reserves

(d) Hybrid debt capital instruments

(e) Subordinated debt

(f) Investment Reserve Account

(a) *Undisclosed reserves and cumulative perpetual preference assets* - These elements have the capacity to absorb unexpected losses and can be included in the capital, if they represent accumulations of post-tax profits and not encumbered by any known liability and should not be routinely used for absorbing normal loan or operating losses. Cumulative perpetual preference shares should be fully paid-up and should not contain clauses which permit redemption by the holder.

(b) *Revaluation reserves* - These reserves often serve as a cushion against unexpected losses but they are less permanent in nature and cannot be considered as core capital. Revaluation reserves arise from revaluation of assets that are under-valued in the bank's books. The extent to which the revaluation reserve can be relied upon as cushion for unexpected loss depends mainly upon the level of certainty that can be placed on estimates of

the market values of the relevant assets, the subsequent proportion in values under difficult market conditions or in a forced sale, potential for actual liquidation at those values, tax consequences of revaluation etc. Therefore, it would be prudent to consider revaluation reserves at a discount of 55% while determining their value for inclusion in Tier-II capital. Such reserves however will have to be reflected on the face of the balance sheet as revaluation reserves.

(c) ***General provisions and loss reserves*** **-** If these are not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, they can be included in Tier-II capital. Adequate care must be taken to see that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering general provisions and loss reserves to be part of Tier-II capital. However, general provisions and loss reserves (including general provision on standard assets) may be taken only up to a maximum of 1.25 per cent of weighted risk assets.

'Floating Provisions' held by the banks, which is general in nature and not made against any identified assets, may be treated as a part of Tier II capital within the overall ceiling of 1.25 percent of total risk weighted assets.

Excess provisions which arise on sale of NPAs would be eligible Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

(d) ***Hybrid Debt Capital instruments*** **-** Those instruments which have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, may be included in Tier II capital. At present the following instruments have been recognized and placed under this category:

i. Debt capital instruments eligible for inclusion as Upper Tier II capital ; and

ii. Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) as part of Upper Tier II Capital.

(e) ***Subordinated Debt*** **-** To be eligible for inclusion in the Tier-II capital the instrument should be fully paid up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses and should not be redeemable at the initiative of the holder or without the consent of the banks' supervisory authorities. They often carry a fixed maturity and as they approach maturity, they should be subjected to progressive discount for inclusion in Tier-II capital. Instrument with an initial maturity of less than five years or with a remaining maturity of one year should not be included as part of Tier-II capital. Subordinated debt instrument will be limited to 50% of Tier-I capital.

(f) ***Investment Reserve Account*** **-** In the event of provisions created on account of depreciation in the 'Available for Sale' or 'Held for Trading' categories being found to be in excess of the required amount in any year, the excess should be credited to the Profit & Loss account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) should be appropriated to an Investment

Reserve Account in Schedule 2 –"Reserves & Surplus" under the head "Revenue and other Reserves" in the Balance Sheet and would be eligible for inclusion under Tier II capital within the overall ceiling of 1.25 per cent of total risk weighted assets prescribed for General Provisions/ Loss Reserves.

(g) Banks are allowed to include the 'General Provisions on Standard Assets' and 'provisions held for country exposures' in Tier II capital. However, the provisions on 'standard assets' together with other 'general provisions/ loss reserves' and 'provisions held for country exposures' will be admitted as Tier II capital up to a maximum of 1.25 per cent of the total risk-weighted assets.

3.3.3 Deductions from Tier I and Tier II Capital

a) Equity/non equity investments in subsidiaries

The investments of a bank in the equity as well as non-equity capital instruments issued by a subsidiary, which are reckoned towards its regulatory capital as per norms prescribed by the respective regulator, should be deducted at 50 per cent each, from Tier I and Tier II capital of the parent bank, while assessing the capital adequacy of the bank on 'solo' basis, under the Basel I Framework.

b) Credit Enhancements pertaining to Securitization of Standard Assets

i) **Treatment of First Loss Facility:** The first loss credit enhancement provided by the originator shall be reduced from capital funds and the deduction shall be capped at the amount of capital that the bank would have been required to hold for the full value of the assets, had they not been securitised. The deduction shall be made at 50% from Tier I and 50% from Tier II capital.

ii) **Treatment of Second Loss Facility:** The second loss credit enhancement provided by the originator shall be reduced from capital funds to the full extent. The deduction shall be made 50% from Tier I and 50% from Tier II capital.

iii) **Treatment of credit enhancements provided by third party:** In case, the bank is acting as a third party service provider, the first loss credit enhancement provided by it shall be reduced from capital to the full extent as indicated at para (i) above.

iv) **Underwriting by an originator** Securities issued by the SPVs and devolved / held by the banks in excess of 10 per cent of the original amount of issue, including secondary market purchases, shall be deducted 50% from Tier I capital and 50% from Tier II capital.

v) **Underwriting by third party service providers:** If the bank has underwritten securities issued by SPVs devolved and held by banks which are below investment grade the same will be deducted from capital at 50% from Tier I and 50% from Tier II.

3.4 Ratio of Tier II Capital to Tier I Capital

The quantum of Tier II capital is limited to a maximum of 100% of Tier I Capital. This seeks to ensure that the capital funds of a bank predominantly comprise of core capital rather than items of a less permanent nature. It may be clarified that the Tier II capital of a bank can exceed its Tier I capital; however, in such a case, the excess will be ignored for the purpose of computing the capital adequacy ratio.

3.5 Tier I and Tier II Capital for Foreign Banks

As in case of Indian banks, capital funds of foreign banks operating in India would also comprise of Tier I capital and Tier II capital.

Tier I capital of Foreign bank would comprise the following elements:

(i) Interest free funds from Head Office kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms.

(ii) Innovative Instruments eligible for inclusion as Tier I capital.

(iii) Statutory reserves kept in Indian books.

(iv) Remitable surplus retained in Indian books which is not repatriable so long as the bank functions in India.

Tier II Capital :

The elements of Tier II capital include the following elements.

a) Elements of Tier II capital as applicable to Indian banks.

b) Head Office (HO) borrowings raised in foreign currency (for inclusion in Upper Tier II Capital) subject to certain terms and conditions.

3.6 Risk-adjusted Assets

For CAR purposes the entire assets side of the Banks Balance Sheet is recalculated on the basis of assigning risk weights to each category of assets. This follows the principle of conservatism by considering assets at their Risk Adjusted Values rather than at their face value in calculating the CAR

For example, cash balances are not susceptible to any risks whereas advances are susceptible to credit risks. Even within advances, the risk of loss arising from failure of the customer to settle his obligation fully is less in the case of loans guaranteed by DICGC/ECGC as compared to unguaranteed loans.

Similarly, different off-balance sheet items also involve varying degree of risk. For example, the risk involved in guarantees given against counter-guarantees of other banks is much less compared to other guarantees. Similarly, guarantees related to particular transactions are less risky compared to general guarantees of indebtedness.

Recognising the above, the Reserve Bank has assigned different risk weights to different categories of assets. For example, cash, balances with Reserve Bank of India is assigned a risk weight of zero (i.e. the asset will not be considered to be at risk at all), loan and advances have generally been assigned a risk weight of 100 per cent.

The risk adjusted value for any category of assets is determined by multiplying the value of the category of an asset as per the balance sheet with the risk weight assigned thereto.

For example, if a bank has DICGC/ECGC guaranteed advances of ₹ 100 crores outstanding on the balance sheet date, the risk-adjusted value of these advances would be ₹ 50 crores (loans guaranteed by DICGC/ECGC have been assigned a risk weight of 50).

So even though the Bank has extended a loan of ₹ 100 crores, after Risk –Adjusted Assets, for CAR purposes it will be reckoned as only ₹ 50 Crores.

In brief the important weights for the purpose of Ascertainment of CAR are as follows:-

Sr. No.	Item of asset	Risk Weight %
1.	Cash, balances with RBI	0
2.	Balances in current account with other banks	20
3.	Investments in Government Securities	0
4.	Other Investments	100
5.	Loans & Advances guaranteed by Government	0
6.	Other Loans & Advances	100
7.	Bank Premises, Furniture & Fittings etc.	100
8.	All Off- Balance Sheet Items like LC's, LG's, Bills accepted.	100
9.	Non funded exposure to Real estate	150

For detailed Risk Weights as per RBI guidelines for the purpose of CAR are given in Annexure IV

3.7 Reporting for Capital Adequacy Norms

Banks should furnish an annual return. The format for the returns is specified by the RBI under Capital Adequacy Norms. The returns should be signed by two officials who are authorised to sign the statutory returns now being submitted to the Reserve Bank.

Illustration 1

A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk-adjusted asset and risk weighted assets ratio –

Capital Funds:	*(Figures in ₹ lakhs)*
Equity Share Capital	*4,80,00*
Statutory Reserve	*2,80,00*
Capital Reserve (of which ₹ 280 lakhs were due to revaluation of assets and the balance due to sale)	*12,10*
Assets:	
Cash Balance with RBI	*4,80*
Balances with other Bank	*12,50*
Claims on Banks	*28,50*
Other Investments	*782,50*
Loans and Advances:	
(i) Guaranteed by government	*128,20*
(ii) Guaranteed by public sector undertakings of Government of India	*702,10*
(iii) Others	*52,02,50*
Premises, furniture and fixtures	*182,00*
Other Assets	*201,20*
Off-Balance Sheet Items:	
Acceptances, endorsements and letters of credit	*37,02,50*

Solution

	₹ *in lakhs*	₹ *in lakhs*
(i) Capital Funds - Tier I :		
Equity Share Capital		480,00
Statutory Reserve		280,00
Capital Reserve (arising out of sale of assets)		9,30
		769,30
Capital Funds - Tier II :		
Capital Reserve (arising out of revaluation of assets)	280	
Less : Discount to the extent of 55%	(154)	1,26
		770,56

(ii) Risk Adjusted Assets

Funded Risk Assets	₹ in lakhs	Percentage weight	Amount ₹ in lakhs
Cash Balance with RBI	4,80	0	—
Balances with other Banks	12,50	20	2,50
Claims on banks	28,50	20	5,70
Other Investments	782,50	100	782,50

Loans and Advances:			
(i) guaranteed by government	128,20	0	—
(ii) guaranteed by public sector undertakings of Central Govt.	702,10	0	—
(iii) Others	52,02,50	100	52,02,50
Premises, furniture and fixtures	1,82,00	100	1,82,00
Other Assets	2,01,20	100	2,01,20
			63,76,40
Off-Balance Sheet Item	*₹ in lakhs*	*Credit Conversion Factor*	
Acceptances, Endorsements and Letters of credit	37,02,50	100	37,02,50
			100,78,90

Risk Weighted Assets Ratio: $\dfrac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets} + \text{off Balance sheet items}} \times 100$

$$= \frac{7{,}69{,}30 + 1{,}26}{63{,}76{,}40 + 37{,}02{,}50}$$

Capital Adequacy Ratio $= \dfrac{770{,}56}{100{,}78{,}90} \times 100 = 7.65\%$

Expected ratio is 9%. So the bank has to improve the ratio by introducing further Tier I capital.

Unit – 4 : Income Recognition, Classification of Assets and Provisions

Learning Objectives

In this unit, you will be able to:

- Determine the profit/loss of a bank which is determined by the income recognition policy. Learn the technique of income recognition followed by a bank.
- Classify advances of a Bank according to the riskiness i.e. standard assets, sub-standard assets, doubtful assets, and loss assets. Try to understand the definitions of various categories and also follow Illustration given in the chapter to learn.
- Create adequate provision against sub-standard, doubtful and loss assets. This helps to find out the bank profit in a conservative manner. Reserve Bank (RBI) has issued guidelines stating the rates to be followed for making such provision.
- Make provision for depreciation on their current investments. Learn how to classify investments into permanent and current and also follow the technique suggested by the Reserve Bank for computation of depreciation provision.

4.1 Income Recognition

Bulk of a banks' income is from two sources:-

1. Interest earned on Loans & Advances extended to its customers.
2. Discount and commission earned handling Bills of Exchange and Non-Funded advances like Letter of Credit (LC), Letter of Guarantee (LG) etc.

In this unit Income recognition from Loans & Advances will be dealt with and in the next unit Income from Bills/LCs'/LGs' will be taken up.

Income recognition for interest earned is a function of classification of the Bank loans & advances (i.e. its Assets into Performing & Non-Performing Assets (NPA's)). For Performing assets income is recognised as it is earned i.e. accrued. It is an essential condition for accrual of income that it should not be unreasonable to expect its ultimate collection. For Non Performing assets interest income is not considered on accrual basis and it is recognised only when it is actually received. Basically an NPA is a bad and doubtful debt.

An asset becomes non-performing when the bank does not receive income from it for a certain period. In concept, any credit facility (assets) becomes non-performing "when it ceases to generate income for a bank."

Note: Bank should classify an account as NPA if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Income from non-performing assets can only be accounted for as and when it is actually received. The Accounting Standard 9 (AS 9) on 'Revenue Recognition' issued by the Institute of Chartered Accountants of India (ICAI) requires that the revenue that arises from the use, by

others, of enterprise resources yielding interest should be recognized only when there is no significant uncertainty as to its measurability or collectability.

Illustration 1

Given below interest on advances of a commercial bank (₹ in lakhs)

	Performing Assets		*NPA*	
	Interest earned	*Interest received*	*Interest earned*	*Interest received*
Term Loans	*120*	*80*	*75*	*5*
Cash credits and overdrafts	*750*	*620*	*150*	*12*
Bills purchased and discounted	*150*	*150*	*100*	*20*

Find out the income to be recognized for the year ended 31st March, 2012.

Solution

Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

			₹ in lakhs
Interest on Term Loan :	(120 + 5)	=	125
Interest on cash credits and overdraft :	(750 + 12)	=	762
Income from bills purchased and discounted :	(150 + 20)	=	170
			1,057

Illustration 2

KC Bank Statement of interest on advances in respect of Performing assets and Non Performing Assets are as follows:-

(in lakhs)

	Performing Assets		*Non Performing Assets*	
	Interest earned	*Interest received*	*Interest earned*	*Interest received*
Cash credits and overdrafts	*1800*	*1060*	*450*	*70*
Term Loan	*480*	*320*	*300*	*40*
Bills purchased and discounted	*700*	*550*	*350*	*36*

Find out the income to be recognized for the year ended 31st March, 2012.

Solution

Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

			₹ in lakhs
Interest on cash credits and overdraft :	(1800+70)	=	1,870
Interest on Term Loan	(480+40)	=	520
Income from bills purchased and discounted :	(700+36)	=	736
			3,126

Illustration 3

Find out the income to be recognised in the case of SS Bank for the year ended 31st March, 2012:

(₹ in lakhs)

	Performing Assets		***Non-performing Assets***	
	Interest accrued	***Interest received***	***Interest accrued***	***Interest received***
Term loans	*240*	*160*	*150*	*10*
Cash credits and overdrafts	1,500	1,240	300	24

Solution

Calculation of interest income of SS Bank to be recognised for the year ended 31.3.2012

	(₹ in	*lacs)*
Term Loan		
Interest accrued on Performing Assets	240	
Interest received on Non - Performing Assets	10	250
Cash credit and overdraft		
Interest accrued on Performing Assets	1,500	
Interest received on Non - Performing Assets	24	1,524
Total interest to be recognised		1,774

Identification of NPA

The Reserve Bank of India has issued detailed guidelines to banks regarding the classification of advances between performing and non-performing assets which are revised from time to time. The latest guidelines for identifying an NPA's are:

1. **Bills purchased and discounted** become NPA if interest and / or instalment of principal remain overdue for a period exceeding 90 days.

2. **Term Loans:** become NPA if their amount (interest or principal) remain overdue wholly or partly for a period exceeding 90 days.

3. A cash credit / overdraft account is treated as NPA if it becomes out of order. An account is deemed to be out of order if the outstanding balance remains continuously in excess of the sanctioned borrowing power or though the outstanding balance remains below the sanctioned borrowing power, there have been no credits in the account for a continuous period of more than 90 days prior to the Balance Sheet date or where the credits have not been enough to cover the interest debited during the same period. Therefore, an account is treated as **'out of order'** if ***any*** of the following conditions are satisfied:

(a) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power for a continuous period of 90 days prior to the Balance Sheet date

(b) Though the outstanding balance is less than the sanctioned limit/drawing power –

   (i) there have been no credits for a continuous period of more than 90 days prior to the date of balance sheet; or

   (ii) credits during the aforesaid period are not enough to cover the interest debited during the same period.

c) Further any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank

Example of OUT OF ORDER

Sanctioned limit	₹60,00,000
Drawing power	₹55,00,000
Amount outstanding continuously from 1.01.2013 to 31.03.2013	₹ 47,00,000
Total interest debited	₹3,42,000
Total credits	₹1,25,000

Since the credit in the account is not sufficient to cover the interest debited during the period account will be said as NPA.

4. Agricultural Advances: Advances granted for agriculture purposes becomes NPA **if interest and/or installment of principal remains overdue for two crop seasons** in case of **short duration crops** and a loan granted for **long duration crops will be treated as NPA,** if the installment of principal or interest thereon remains **overdue for one crop season.** *Crops having crop season of more than one year i.e. upto the period of harvesting the crops raised will be termed as 'long duration" crops and other crops will be treated as "short duration" crops.*

5. Securitisation transactions: Such transactions become NPA when the amount of liquidity facility remains overdue for more than 90 days.

6. Derivative transactions: Such transactions become NPA when the overdue receivables representing positive mark to market value of a derivative contract remain unpaid for a period of 90 days from the specified due date for payment.

7. **Government guaranteed advances:** The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures. With effect from the year ending 31 March 2006 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

8. **Advances to Staff:** As in the case of project finance, in respect of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, the overdue status (in respect of payment of interest) should be reckoned from the date when there is default in payment of interest or repayment of instalment of principal on due date of payment.

9. **Take-out Finance:** In the case of take-out finance arrangement, the lending bank should apply the prudential norms in the usual manner so long as the account remains on its banks

* Take-out finance is a product emerging in the context of the funding of long-term infrastructure projects. Under this arrangement, the institution/bank financing the infrastructure projects ('the lending institution') has an arrangement with a financial institution ('the taking-over institution') for transferring to the latter the outstanding in respect of such financing on a pre-determined basis. There are several variants of take-out finance, but basically, they are either in the nature of unconditional take-out finance or conditional take-out finance. In the latter case, the taking-over institution stipulates certain conditions to be satisfied by the borrower before it is taken over from the lending institution. Thus, in this variant of take-over arrangements, there is an inherent element of uncertainty over the ultimate transfer of the outstanding amount to the taking-over institution. For a take-out finance arrangement to take effect, the borrower should also recognise the arrangement by way of inter-creditor arrangement.

10. **Advances Guaranteed by EXIM Bank:** In the case of advances covered under the guarantee-cum-refinance programme of EXIM Bank, to the extent payment has been received by the bank from the EXIM Bank, **the advance may not be treated as NPA. The balance should, however, be treated as NPA**. (if the conditions for treating it as NPA are satisfied).

11. **Consortium Advances:** Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of

recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

12. Advances Secured Against Certain Instruments: Advances secured against term deposits, national savings certificates (NSCs) eligible for surrender, Indira Vikas Patras, Kisan Vikas Patras and life insurance policies have been exempted from the above guidelines. Thus, interest on such advances may be taken to income account on due dates provided adequate margin is available in the respective accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

4.1.1 Regularisation of Account by year-end: The identification of NPA is to be done on the basis of the position as on the balance sheet date. If an account has been regularised before the balance sheet date by payment of overdue amount through genuine sources (and not by sanction of additional facilities or transfer of funds between accounts), the account need not be treated as NPA. The bank should, however, ensure that the account remains in order subsequently. Also, a solitary credit entry made in the account on or before the balance sheet date which extinguished the overdue amount of interest or instalment of principal is not reckoned as the sole criterion for determining the status of the account as non-performing or otherwise.

Certain other important RBI guidelines with reference to NPA's are given below:-

(i) Temporary Deficiencies: The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such deficiencies banks may follow the following guidelines:

a) Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

A working capital borrower account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

b) Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to

show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

(ii) Net Worth of Borrower/Guarantor or Availability of Security: Since income recognition is based on recoveries from an advance account, net worth of borrower/guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise. Likewise, the availability of security is not relevant for determining whether an account is NPA or not (this is, however, subject to certain exceptions).

(iii) Determination of NPAs : Borrower-wise, Not Facility-wise: If any of the credit facilities granted to a borrower becomes non-performing, all the facilities granted to the borrower will have to be treated as NPA without any regard to performing status of other facilities.

(iv) Partial Recoveries in NPAs: Interest partly realised in NPAs can be taken to income. However, it should be ensured that the credits towards interest in the relevant accounts are not out of fresh/additional credits facilities sanctioned to borrowers concerned.

4.1.2 Interest Application : On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

In the account books of the bank, a customer's loan account is debited with the amount lent to him and the interest accrued thereon is also entered in the debit side of his account. This procedure is followed when the financial position of the customer is good and he will be in a position to return the money on maturity date; the journal entry is :

Debit : Customer's Loan Account

Credit: Interest Account

But if there is any doubt regarding customer's ability to pay, the debt becomes doubtful and the interest accrued on doubtful debts at the end of the accounting year should not be credited to Interest Account because it remains unrealised and would artificially inflate the profit of the bank company. Interest on doubtful debts should be then credited to Interest Suspense Account and debited to Customer's Loan Account as shown below:

Debit : Customer's Loan Account

Credit : Interest Suspense Account

In the balance sheet Interest Suspense Account will be shown in Liabilities side of to be included in **Schedule 5: Other Liabilities and Provisions,** Customer's Loan account with interest included would be shown in the Assets side. At a later date when the loan is repaid by the customer and interest realised, the entry would be:

Debit : Interest Suspense Account

Credit: Interest Account

Finally, the unrealised amount of interest should be transferred to Customer's Loan Account with the help of following entry:

Interest Suspense Account Dr.

To Customer's Loan Account

For Example:

On 31 March 2013, there is an unsecured loan of ₹ 8,00,000 to Shri Pankaj in the loan ledger of a Sona Bank. It is found on enquiry that the financial position of the borrower is bad and doubtful. Interest on the said loan has accrued ₹ 80,000 and is yet to be recorded. During 2013-14, the bank is able to realise only 80% of the outstanding amount on account of customer's bankruptcy. Show how the transactions would be recorded in the books of the Sona bank.

Solution

Journal Entries
Books of Sona Bank

Date	Particulars		Debit ₹	Credit ₹
2013 31 March	Pankaj Loan Account	Dr.	80,000	
	To Interest Suspense Account			80,000
	(Interest due on doubtful debt credited to interest suspense account)			
2013-14	Bank Account	Dr.	7,04,000	
	To Pankaj Loan Account			7,04,000
	(Recovery of 80% of the total loan amount and interest accrued i.e. (8,00,000+80,000)			
	Interest Suspense Account	Dr.	64,000	
	To Interest Account			64,000
	(Amount received against the suspense account)			
	Interest Suspense Account	Dr.	16,000	
	Bad Debts Account	Dr.	1,60,000	
	To Pankaj Loan Account			1,76,000
	(Unrecovered portion of the interest reversed and the balance transferred to bad debts account)			

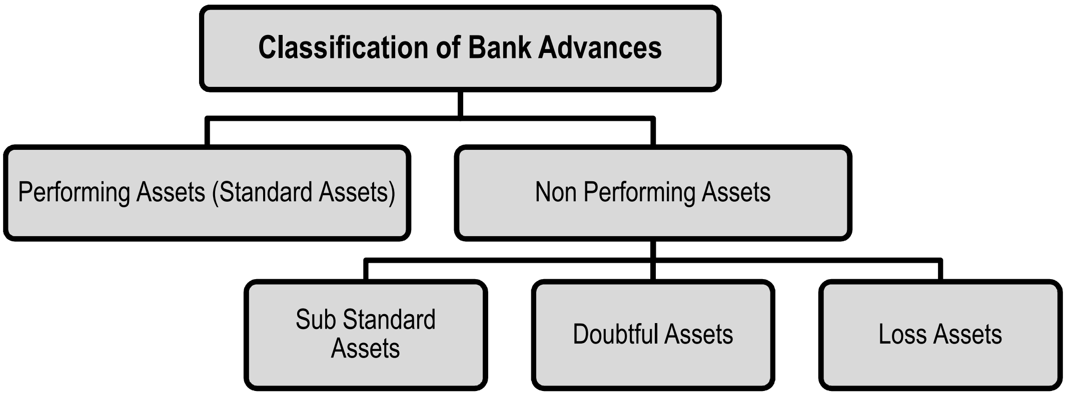
Treatment of interest suspense account: Amounts held in Interest Suspense Account should not be reckoned as part of provisions for NPA. Amounts lying in the Interest Suspense Account should be deducted from the relative advances and thereafter NPA, provisioning as per the norms, should be made on the balances after such deduction.

4.2 Classification of Bank Advances on basis of Performance

The Banks have to classify their advances into two broad groups:

1. Performing Assets
2. Non Performing Assets

Performing assets are also called as Standard Assets. The Non Performing Assets is again classified into three groups and they are (i) sub standard Assets (ii) doubtful assets & (iii) Loss Assets.



Performing Assets:

Standard Assets - Standard assets are those which do not disclose any problems and which does not carry more than normal risk attached to the business.

Non Performing Assets (NPA):

(i) **Sub-standard Assets** – A Sub-standard asset is one which has been classified as an NPA for a period not exceeding 12 months.

In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. In other words, such an asset will have well-defined credit weaknesses that jeopardise the repayment of the debt and are characterised by the possibility that the bank would sustain some loss, if deficiencies are not corrected.

(ii) **Doubtful Assets** - An asset would be classified as doubtful if it has remained in the sub-standard category for a period of at least12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub standard, with the added characteristic that the weaknesses make collection or liquidation in full, questionable.

As per RBI guideline, loan upon becoming an NPA would first be classified as sub standard for a period not exceeding 12 months and beyond that it would have to be classified as DOUBTFUL.

(iii) **Loss Assets** - A loss asset is one where loss has been identified by the **bank or internal or external auditors or the RBI inspectors** but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible or if collected of such little value that its continuance as a bank asset is not warranted although there may be some salvage or recovery value.

It may be noted that the above classification is meant for the purpose of computing the amount of provision to be made in respect of advances and not for the purpose of presentation of advances in the balance sheet. The balance sheet presentation of advances is governed by the Third Schedule to the Banking Regulation Act, 1949, which requires classification of advances altogether differently.

Important Points for Provisions:

1. Threats to Recovery: As per the guidelines, upon becoming NPA, a credit facility would be classified first as sub-standard for a period not exceeding 12 months and then as doubtful. It has been clarified, however, that in respect of accounts where there are potential threats to recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, it will not be prudent for banks to clarify them first as sub-standard and thereafter as doubtful. Banks have been advised to classify such accounts **straightway** as doubtful or loss assets, as appropriate irrespective of the period for which the account has remained NPA.

2. Security having Significant Realisable Value: It has been clarified that where the realisable value of security is significant, the credit facility should not be treated as loss assets.

To illustrate, suppose, as on March 31, 2012, the bank or the internal/external auditor or the RBI *inspectors* identifies a particular credit facility as a loss asset where the amount outstanding is ₹ 100 lakh and the salvage value of the security is ₹ 10 lakh. In such a case, the facility should be treated as a loss asset and provision should be made for ₹ 100 lakh (and not ₹ 90.00 lakh). If, on the other hand, the realisable value of the security is ₹ 80 lakh (i.e) the realisable value of security is significant then the bank can treat the credit facility only as doubtful and not as a loss asset.

3. Reschedulement / Restructuring /Renegotiation of Advances: Banks may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories. However, Banks can not reschedule / restructure /renegotiate any of the borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re- classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation.

No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. The viability should be determined by the banks based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis.

The stages at which the restructuring/rescheduling/ renegotiation of the terms of loan agreement can take place are as under:

(a) Before commencement of commercial production/operation;

(b) After commencement of commercial production/operation but before the asset has been classified as sub standard; and

(c) After commencement of commercial production/operation and after the asset has been classified as sub standard or doubtful.

The accounts classified as 'standard assets' should be immediately reclassified as 'sub-standard assets' upon restructuring (except for in certain cases). The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per asset classification norms with reference to the pre-restructuring repayment schedule (except for in certain cases). Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest/principal payment, whichever is earlier, falls due under the approved restructuring package. However, in case of accounts where the pre-restructuring facility was classified as "sub-standard" and "doubtful", interest income on the additional finance should be recognized on cash basis only. If the restructured asset does not qualify for upgradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

All restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for up-gradation to the 'standard' category after observation of 'satisfactory performance' during the 'specified period'. In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

While reviewing the prudential guidelines on restructuring of advances by banks/ financial institutions, Reserve Bank of India has decided the following*:

i) To enhance the provisioning requirement for restructured accounts classified as standard advances from the existing 2.00 per cent to 2.75 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2.75 per cent for the period covering moratorium and two years thereafter; and that

ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2.75 per cent in the first year from the date of upgradation instead of the existing 2.00 per cent.

In accordance with the above, loans to projects under implementation, when restructured due to change in the date of commencement of commercial operations (DCCO) beyond the original DCCO as envisaged at the time of financial closure and classified as standard advances in terms of guidelines contained in RBI circular DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010, would attract higher provisioning at 2.75 per cent as against the present requirement of 2.00 per cent as per the details given below:

Infrastructure projects

Particulars	*Provisioning Requirement*
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay (Ref.: DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.

Non-infrastructure projects

Particulars	*Provisioning Requirement*
If the revised DCCO is within six months from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond six months and upto one year from the original DCCO prescribed at the time of financial closure (Ref.:DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring for 2 years.

* vide circular no.DBOD.No.BP.BC.63/21.04.048/2012-13 dated November 26, 2012. These norms are applicable for all scheduled commercial banks excluding RRBs.

Circular no. DBOD.No.BP.BC.33/21.04.048/2014-15 dated 14 August, 2014, states that: revisions of the date of commencement of commercial operations (DCCO) and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects respectively; and

(b) All other terms and conditions of the loan remain unchanged.

4.3 Provisions

Taking into account the time lag between an asset becoming substandard/doubtful turning into loss asset, RBI has directed that bank should make provision against all assets (i.e) Loans & advances as follows:

Rates of Provisioning for Non-Performing Assets*

Standard Assets

(i) The bank requires to make a general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis. The general provision towards standard assets as per Master circular is as follows:

(1) direct advances to agricultural and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;

(2) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;

(3) Advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent;

(4) Housing loans extended at lesser rates – 2.00%. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard';

(5) Restructured accounts classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.

Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

The above-mentioned higher provision on restructured standard advances (2.75 per cent as prescribed vide circular dated November 26, 2012) would increase to 5 per cent in respect of new restructured standard accounts (flow) with effect from June 1, 2013 and increase in a phased manner for the stock of restructured standard accounts as on May 31, 2013 as under:

3.50 per cent - with effect from March 31, 2014 (spread over the fourquarters of 2013-14)

4.25 per cent - with effect from March 31, 2015 (spread over the fourquarters of 2014-15)

5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16)

(6) All other loans and advances not included above - 0.40%

(ii) It is clarified that the Medium Enterprises will attract 0.40% standard asset provisioning. The definition of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be in terms of Master Circular on Lending to Micro, Small & Medium Enterprises (MSME) Sector.

(iii) While the provisions on individual portfolios are required to be calculated at the rates applicable to them, the excess or shortfall in the provisioning, vis-a-vis the position as on any previous date, should be determined on an aggregate basis.

(iv) The provisions on standard assets should not be reckoned for arriving at net NPAs. The provisions towards Standard Assets need not be netted from gross advances but included as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions - Others' in Schedule 5 of the balance sheet.

Rates of Provisioning for Sub- standard, Doubtful and Loss Advances are as follows:

Category of Advances	Revised Rate (%)
Sub- standard Advances	
• Secured Exposures	15
• Unsecured Exposures	25
• Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	20
Doubtful Advances – Unsecured Portion	100
Doubtful Advances – Secured Portion	
• For Doubtful upto 1 year	25
• For Doubtful > 1 year and upto 3 years	40
• For Doubtful > 3 years	100
Loss Advances	100

Accounting and Provisioning Norms for Equipment Leasing Activity: While the accounting and provisioning norms discussed above shall also apply in respect of equipment leasing activities. The bank should follow the Accounting Standard 19 on "Leases" in accounting for lease transactions.

Note:

1. The provisions on standard assets should not be reckoned for arriving at net NPAs.

2. The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions' in Schedule 5 of the balance sheet.

As per Master Circular DBOD.No.BP.BC.1/21.04.048/2014-15 dated July 1, 2014.

General Note: Since no bank is likely to extend any loans or advances without adequate security, it is prudent to assume in the questions that even in the case of substandard or doubtful or loss assets, the same are secured unless the question specifically mentions otherwise.

Illustration 1

The outstanding amount (funded as well as unfunded) as on 31st March, 2013 was: ₹ 10,000. The realizable value of security of the same was ₹ 8,000.

Period for which the advance has remained in 'doubtful' category as on 31st March, 2013 was: 2.5 years.

Solution

Provisioning requirement:

As on…	*Asset Classification*	*Provisions on secured portion*		*Provisions on unsecured portion*		*Total (₹)*
		%	Amount	%	Amount	
31 March, 2013	Doubtful 1 to 3 years	40	3,200	100	2,000	5,200
31 March, 2014	Doubtful more than 3 years	100	8,000	100	2,000	10,000

Note: The secured portion of the outstanding loan is ₹ 8,000 and unsecured portion is ₹ 2,000.

Illustration 2

From the following information, find out the amount of provisions to be shown in the Profit and Loss Account of AG bank.

		₹ in lakhs
Assets		
Standard		*5000*
Sub-standard		*4000*
Doubtful	*: for one year*	*800*
	: for three years	*600*
	: for more than three years	*200*
Loss Assets		*1000*

Solution

Computation of provisions for AG Bank

Assets	*Amount ₹ in lakhs*	*% of provision*	*Provision ₹ in lakhs*
Standard	50,00	0.4	20
Substandard*	40,00	15	600
Doubtful for one year*	8,00	25	200
Doubtful for three years*	6,00	40	240
Doubtful for more than three years	2,00	100	200
Loss	10,00	100	1,000
Total Provision required			**2,260**

** All the marked sub-standard and doubtful assets are assumed as fully secured.*

Illustration 3

From the following information of AY Limited, compute the provisions to be made in the Profit and Loss account:

	₹ in lakhs
Assets	
Standard	*20,000*
Substandard	*16,000*
Doubtful	
For one year (secured)	*6,000*
For two years and three years (secured)	*4,000*
. *For more than three years (secured by mortgage of plant and machinery ₹ 600 lakhs)*	*2,000*
Loss Assets	*1,500*

Solution

Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	*Amount of Advances*	*% age of provision*	*Amount of provision*
	(₹ in lakhs)		*(₹ in lakhs)*
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	15	2,400
Doubtful assets:			
For one year (secured)	6,000	25	1,500
For two to three years (secured)	4,000	40	1,600
For more than three years (unsecured)	1,400	100	1,400

(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
Total provision required			**9,080**

4.3.1 Provisioning for advances covered by ECGC/DICGC guarantee

In the case of advances guaranteed by Export Credit Guarantee Corporation (ECGC), Deposit Insurance 7 Credit Guarantee Corporation (DICGC) provision is required to be made only for the balance amount of advance outstanding in excess of the amount guaranteed by the corporations. In case the bank also holds a security in respect of an advance guaranteed by ECGC/DICGC, the realisable value of the security should be deducted from the outstanding balance before the ECGC/DICGC guarantee is off-set. The Reserve Bank of India has also clarified that if the banks are following more stringent method of provisioning in respect of advances guaranteed by ECGC/DICGC, such banks may continue to do so.

The manner of determining the amount of provision in respect of ECGC/DICGC guaranteed advances in accordance with the above guidelines is illustrated below. (It may be noted that these illustrations are merely intended to facilitate understanding of the RBI guidelines; they have not been issued by the RBI.)

Illustration 4

Outstanding Balance	*₹ 4 lakhs*
ECGC Cover	*50%*
Period for which the advance has remained doubtful	*More than 3 years remained doubtful (as on March 31, 2013)*
Value of security held	*₹ 1.50 lakhs*

You are required to calculate provisions.

Solution

Provision required to be made as on 31.03.2013

Outstanding balance	₹ 4.00 lakhs
Less: Value of security held(Secured Portion)	(₹ 1.50 lakhs)
Unrealised balance	₹ 2.50 lakhs
Less: ECGC Cover (50% of unrealizable balance)	(₹ 1.25 lakhs)
Net unsecured balance	₹ 1.25 lakhs
Provision for unsecured portion of advance	₹ 1.25 lakhs (@ 100% of unsecured portion)
Provision for secured portion of advance	₹ 1.50 lakhs (@ 100% of the secured portion as advance has remained doubtful for over 3 years)
Total provision to be made	**₹ 2.75 lakhs**

Illustration 5

Outstanding Balance	*₹ 4 lakhs*
ECGC Cover	*50%*
Period for which the advance has remained doubtful	*More than 3 years remained doubtful (as on March 31, 2012)*
Value of security held (realizable value only 80%)	*₹ 1.50 lakhs*

You are required to calculate provisions as per applicable rates.

Solution

Provision required to be made as on 31.03.2012

Outstanding balance	₹ 4.00 lakhs
Less: Value of security held (80% of 1.5 lacs)	(₹ 1.20 lakhs)
Unrealised balance	₹ 2.80 lakhs
Less: ECGC Cover (50% of unrealizable balance)	(₹ 1.40 lakhs)
Net unsecured balance	₹ 1.40 lakhs
Provision for unsecured portion of advance	₹ 1.40 lakhs (@ 100% of unsecured portion)
Provision for secured portion of advance	₹ 1.20 lakhs (@ 100% of the secured portion)
Total provision to be made	₹ 2.60 lakhs

Illustration 6

In KR Bank, the doubtful assets (more than 3 years) as on 31.3.2012 is ₹ 1,000 lakhs. The value of security (including DICGC 100% cover of ₹ 100 lakhs) is ascertained at ₹ 500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

Solution

	(₹ in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	(400)
	600
Less: DICGC cover	(100)
Unsecured portion	500
Provision:	
for unsecured portion @100%	500 lakhs
for secured portion @ 100%	400 lakhs
Total provision to be made in the books of KR Bank	900 lakhs

Illustration 7

A loan outstanding of ₹ 50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk-adjusted asset?

Solution

Loan outstanding	₹50,00,000
Guaranteed by DICGC – Risk weight	50%
Value of risk adjusted asset ₹.50,00,000 × 50% =	₹ 25,00,000

Principle for creation of floating provisions

The Master Circular dated July 1, 2013 on Income Recognition, Asset Classification and Provisioning Pertaining to Advances, requires the bank's board of directors to lay down a policy regarding the level to which the floating provisions can be created. The bank should hold floating provisions for 'advances' and 'investments' separately.

The floating provisions should not be used for making specific provisions as per the extant prudential guidelines in respect of nonperforming assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of RBI. The boards of the banks should lay down an approved policy as to what circumstances would be considered extraordinary.

In terms of the Agricultural Debt Waiver and Debt Relief Scheme, 2008, lending institutions shall neither claim from the Central Government, nor recover from the farmer, interest in excess of the principal amount, unapplied interest, penal interest, legal charges, inspection charges and miscellaneous charges, etc. All such interest/charges will be borne by the lending institutions. In view of the extraordinary circumstances in which the banks are required to bear such interest/charges, banks are allowed, as a one time measure, to utilise, at their discretion, the Floating Provisions held for 'advances' portfolio, only to the extent of meeting the interest / charges referred to above.

Floating provisions cannot be reversed by credit to the profit and loss account. They can only be utilised for making specific provisions in extraordinary circumstances as mentioned above. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 % of total risk weighted assets.

***Disclosures:* Banks should make comprehensive disclosures on floating provisions in the "notes on accounts" to the balance sheet on (a) opening balance in the floating provisions account, (b) the quantum of floating provisions made in the accounting year, (c) purpose and amount of draw down made during the accounting year, and (d) closing balance in the floating provisions account.**

***Write-off of NPAs:* Banks may write-off advances at Head Office level, even though the advances are still outstanding in the branch books. At the branch level, provision requirement as per classification norms shall be made and in respect of loss assets**

100% provision shall be made. There can be partial write off relating to the borrower's account in head office.

Interest Suspense Account: As mentioned earlier, the guidelines prohibit recognition of income on non-performing assets until it is actually realised. In order to comply with guidelines while ensuring at the same time that legal remedies against defaulting borrowers are not adversely affected and that proper control is exercised over non-performing advances, many banks adopted the practice of recording interest on non-performing advances to a separate account which is usually styled as 'Interest Suspense Account'. The balance in this account represents interest on non-performing advances debited to the respective borrowers' accounts in accordance with the terms of the agreement but not recognised as income. For purposes of balance sheet presentation, the gross advances portfolio is arrived at after deducting the credit balance in Interest Suspense Account from the total advances as per the ledgers. When the advances are identified as NPAs and banks chooses not to further debit the borrower in the manner aforesaid, the interest on contractual basis is to be computed and recorded as unapplied interest in the memoranda records.

The amounts held in Interest Suspense Account should not be reckoned as part of provisions for the purpose of computing the provision for NPAs. Amounts lying in the Interest Suspense Account should be deducted from the advances concerned and provisions should be made on the balances remaining after such deduction.

4.4 Classification of Investments

A unique feature of investments of a bank is that a large proportion of the investments is made in pursuance of the requirement to maintain a certain minimum level of liquid assets[1]. The directions issued by RBI from time to time affect the methods of classification of investments. The entire investment portfolio of a bank (including SLR securities and non- SLR securities) should be classified under three categories :

Held-to-Maturity, (HTM) : Securities acquired by banks with the intention to hold them upto maturity should be classified as 'held-to-maturity'. Investments under 'held-to-maturity' category should not exceed 25 per cent of the total investments of the bank though a bank can at its discretion hold less than the aforesaid percentage under this category. Certain securities specified in this behalf are not to be reckoned while applying the ceiling of 25 per cent in respect of 'held-to-maturity' securities.

In order to further develop the government securities market and enhance liquidity, it has been decided to bring down the ceiling on SLR securities under the HTM category from 24 per cent of NDTL to 22 per cent* in a graduated manner. Accordingly it is advised that: Banks are permitted to exceed the limit of 25 per cent of total investments under HTM

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[1] To maintain SLR

category provided:

a. the excess comprises only of SLR securities, and

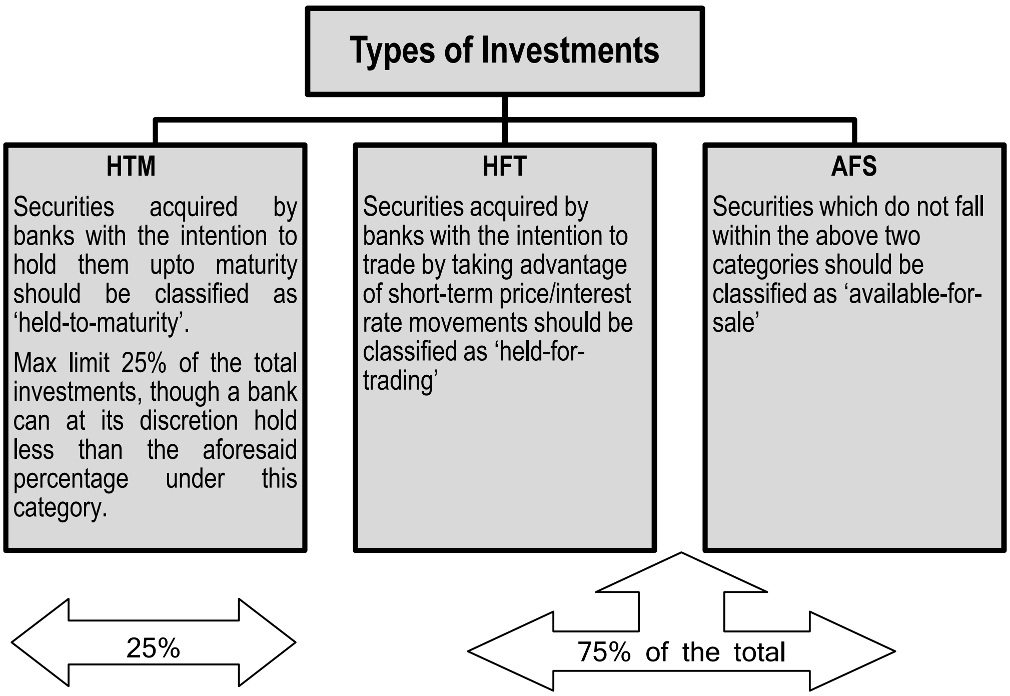
b. the total SLR securities held in the HTM category is not more than 23.50 per cent with effect from January 10, 2015, 23.0 per cent with effect from April 4, 2015, 22.5 per cent with effect from July 11, 2015 and 22.0 per cent with effect from September 19, 2015, of their DTL as on the last Friday of the second preceding fortnight.

* ***As per DBOD.No.BP.BC.42/21.04.141/2014-15 dated 7 October, 2014***

Held-for-Trading. (HFT) : Securities acquired by banks with the intention to trade by taking advantage of short-term price/interest rate movements should be classified as 'held-for-trading'.

Available-for-Sale (AFS) : Securities which do not fall within the above two categories should be classified as 'available-for-sale'.

The banks will have the freedom to decide on the extent of holdings under HFT and AFS. This will be decided by them after considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills or capital position. The investment classified under HFT would be those from which the bank expects to make again by the movement in the interest rates/market rates. These securities are to be sold within 90 days. Profit or loss on sale of investments in both the categories will be taken to the Profit and Loss Account.



4.5 Shifting among Categories of Investments

i) Banks may shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting will normally be allowed at the beginning of the accounting year. No further shifting to/from HTM will be allowed during the remaining part of that accounting year.

ii) Banks may shift investments from AFS to HFT with the approval of their Board of Directors/ ALCO/ Investment Committee. In case of exigencies, such shifting may be done with the approval of the Chief Executive of the bank/Head of the ALCO, but should be ratified by the Board of Directors/ ALCO.

iii) Shifting of investments from HFT to AFS is generally not allowed. However, it will be permitted only under exceptional circumstances like not being able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional. Such transfer is permitted only with the approval of the Board of Directors/ ALCO/ Investment Committee.

iv) Transfer of scrips from AFS / HFT category to HTM category should be made at the lower of book value or market value. In other words, in cases where the market value is higher than the book value at the time of transfer, the appreciation should be ignored and the security should be transferred at the book value. In cases where the market value is less than the book value, the provision against depreciation held against this security (including the additional provision, if any, required based on valuation done on the date of transfer) should be adjusted to reduce the book value to the market value and the security should be transferred at the market value.

In the case of transfer of securities from HTM to AFS / HFT category,

(a) If the security was originally placed under the HTM category at a discount, it may be transferred to AFS / HFT category at the acquisition price / book value. (It may be noted that as per existing instructions banks are not allowed to accrue the discount on the securities held under HTM category and, therefore, such securities would continue to be held at the acquisition cost till maturity). After transfer, these securities should be immediately re-valued and resultant depreciation, if any, may be provided.

(b) If the security was originally placed in the HTM category at a premium, it may be transferred to the AFS / HFT category at the amortised cost. After transfer, these securities should be immediately re-valued and resultant depreciation, if any, may be provided.

In the case of transfer of securities from AFS to HFT category or vice-versa, the securities need not be re-valued on the date of transfer and the provisions for the accumulated depreciation, if any, held may be transferred to the provisions for depreciation against the HFT securities and vice-versa.

4.6 Valuation of Investments

The Banks are required to classify investments into three categories:

(a) Held-to-Maturity,

(i) Investments classified under held-to-maturity category need not be marked to market. They should be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity.

(ii) The bank should reflect the amortised amount in Schedule 13: Interest Earned – Item II 'Income on Investments' as a deduction. However, the deduction need not be disclosed separately. The book value of the securities should continue to be reduced to the extent of the amount amortised during the relevant accounting period.

(iii) As per AS 13- only permanent diminution in the value of such investments under held-to-maturity category should be provided for. Such diminution should be determined and provided for each investment individually

(b) Available-for-sale: The individual scrips in the available-for-sale category should be marked to market quarterly or at more frequent intervals.

While the net depreciation under each of the categories (required by third schedule to Banking Regulation Act, 1949 – refer Unit 1) should be recognised and fully provided for, the net appreciation under any of the aforesaid categories above should be ignored. Thus, banks can offset gains in respect of some investments marked-to-market within a category against losses in respect of other investments marked-to-market in that category.

The guidelines however, do not permit offsetting of gains and losses across different categories. The book value of the individual securities would not have undergone any change after the marking to market . In other words, the depreciation or appreciation in value of individual scrips in accordance with the above methodology would not be credited to individual scrip accounts but would be held collectively in a separate account.

(c) Held-for-trading: The individual scrips in the 'held-for-trading' category should be marked to market at monthly or at more frequent intervals and provided for as in the case of those in the 'Available for sale' category.

Consequently, the book value of the individual securities in this category would also not undergo any change after marking to market.

Banks are required to follow AS 13 'Accounting for Investments' issued by the ICAI relating to long-term investments for valuation of investments in subsidiaries. In terms of AS 13, long term investments should be arrived in the financial statements at carrying cost. However, provision for diminution shall be made to recognise a decline other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

4.7 Investment Fluctuation Reserve

(i) With a view to building up of adequate reserves to guard against any possible reversal of interest rate environment in future due to unexpected developments, banks were advised to build up Investment Fluctuation Reserve (IFR) of a minimum 5 per cent of the investment portfolio within a period of 5 years.

(ii) To ensure smooth transition to Basel II norms, banks are advised to maintain capital charge for market risk in a phased manner over a two year period, as under:

(a) In respect of securities included in the HFT category, open gold position limit, open foreign exchange position limit, trading positions in derivatives and derivatives entered into for hedging trading book , and

(b) In respect of securities included in the AFS category.

(iii) With a view to encourage banks for early compliance with the guidelines for maintenance of capital charge for market risks, banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT (items as indicated at (a) above) and AFS category may treat the balance in excess of 5 per cent of securities included under HFT and AFS categories, in the IFR, as Tier I capital. Banks satisfying the above were allowed to transfer the amount in excess of the said 5 per cent in the IFR to Statutory Reserve.

(iv) Banks maintaining capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT (items as indicated at (a) above) and AFS category would be permitted to treat the entire balance in the IFR as Tier I capital. For this purpose, banks may transfer the balance in the Investment Fluctuation Reserve 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit & Loss Account.

Investment Reserve Account (IRA)

(v) In the event, provisions created on account of depreciation in the 'AFS' or 'HFT' categories are found to be in excess of the required amount in any year, the excess should be credited to the Profit & Loss account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) should be appropriated to an IRA Account in Schedule 2 – "Reserves & Surplus" under the head "Revenue and other Reserves", and would be eligible for inclusion under Tier-II within the overall ceiling of 1.25 per cent of total Risk Weighted Assets prescribed for General Provisions/ Loss Reserves.

(vi) Banks may utilise IRA as follows:

The provisions required to be created on account of depreciation in the AFS and HFT categories should be debited to the P&L Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve), may be transferred from the IRA to the P&L Account.

Illustratively, banks may draw down from the IRA to the extent of provision made during the year towards depreciation in investment in AFS and HFT categories (net of taxes, if any, and

net of transfer to Statutory Reserves as applicable to such excess provision). In other words, a bank which pays a tax of 30% and should appropriate 25% of the net profits to Statutory Reserves, can draw down `52.50 from the IRA, if the provision made for depreciation in investments included in the AFS and HFT categories is `100.

(vii) The amounts debited to the P&L Account for provision should be debited under the head 'Expenditure - Provisions & Contingencies'. The amount transferred from the IRA to the P&L Account, should be shown as 'below the line' item in the Profit and Loss Appropriation Account, after determining the profit for the year. Provision towards any erosion in the value of an asset is an item of charge on the profit and loss account, and hence should appear in that account before arriving at the profit for the accounting period.

(viii) In terms of our guidelines on payment of dividend by banks, dividends should be payable only out of current year's profit. The amount drawn down from the IRA will, therefore, not be available to a bank for payment of dividend among the shareholders. However, the balance in the IRA transferred 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit & Loss Account would be eligible to be reckoned as Tier I capital.

4.8 Disclosure Requirements on Advances Restructured by Banks and Financial Institutions

Reserve of India has framed Disclosure Requirements on Advances Restructured by Banks and Financial Institutions vide Circular DBOD.BP.BC.No.80/21.04.132/2012-13 dated January 31, 2013. These disclosure requirements will be effective from the financial year 2012-13.

Paragraph 16 of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 2, 2012 states manner in terms of which banks should disclose in their published Annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances under the categories- Standard; Sub-Standard; and Doubtful Advances. Under each category, advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories of restructuring are required to be shown separately.

The Working Group (WG) constituted by RBI to review the existing Prudential Guidelines on Restructuring of Advances had recommended that once the higher provisions and risk weights (if applicable) on restructured advances (classified as standard either abinitio or on upgradation from NPA category) revert back to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by banks as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts should continue to be maintained by banks as per the existing instructions. The WG also recommended that banks may be required to disclose: (i) Details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable); (ii) Provisions

made on restructured accounts under various categories; and (iii) Details of movement of restructured accounts.

This recommendation has been accepted in view of the fact that in terms of present guidelines, banks are required to disclose annually all accounts restructured in their books on a cumulative basis even though many of them would have subsequently shown satisfactory performance over a sufficiently long period. As such the present position of disclosures do not take into account the fact that in many of these accounts the inherent weaknesses have disappeared and the accounts are in fact standard in all respects, but continue to be disclosed as restructured advances. Accordingly, banks should henceforth disclose in their published Annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the prescribed format. Detailed instructions relating to the disclosure are also given in the format.

Unit – 5 : Some Special Transactions of Banks

Learning Objective

After studying this chapter, you will be able to understand

- Learn the concept of a rebate on bills discounted. Try to understand the technique of computing such rebate.
- Understand the technique for considering acceptance and endorsement as assets as well as liability.

5.1 Discounting, Collection & Acceptance of Bills

With reference to Bills, a banking company performs the following functions:

1. Discounting of bills
2. Collection of bills
3. Acceptances on behalf of customers

5.1.1 Discounting : A bank may straight away purchase a Bill (Discounting). In this case after reducing discount charges, the balance amount is credited to the account of the customer. The total of both is debited to 'Bills purchased and discounted account'. This account is an Asset. For example, a person holds a bill of exchange duly accepted by his customer for retirement after 90 days. He may either wait for 90 days or have the same bill discounted with his banker who will credit the amount under a bill after deducting the discounting charges, to his account with the bank. On due date the bank will retire the bill with the customer and get his payment.

Rebate on Bills Discounted

Banks discount hundreds of bills every day and when someone gets a bill discounted, the bank credits the discount account with the fall amount of the discount, the bank will earn in respect of that bill. But in practice, it frequently happens that some of these bills will not mature by the close of the accounting year. The portion of the discount which relates to the period falling after the close of the accounting period is called 'rebate on bills discounted', or 'unearned discount'.

Example

A customer discounted a four month's bill from bank on 1st March, 2013 and bank charged ₹ 800 as discount. Accounts are closed on 31st March every Year. The date or maturity of the bill is 31st June, 2013. In this transaction the bank must have credited the discount account with ₹ 800 on 1st March. But out of this, the discount for the months of April, May and June 2013 is not actually earned. Unearned discount for these three months @ ₹ 200 per month amounts to ₹ 600. This is the income which is related to the next accounting period and is called 'income received but not earned. It is also termed as 'rebate on hills discounted' or 'unexpired discount' or 'discount received in advance.'

Since discount on bill discounted is an income for the bank and is shown in the Profit & Loss Account under schedule 13, the amount of unexpired discount, if given in the adjustments, is deducted from schedule 13 and is also shown on the liabilities side of the balance sheet in the item 'other liabilities and provisions' in schedule 15. Following entry is made for the adjustment:

Discount A/c Dr.

To Rebate on Bills Discounted A/c

(For adjustment of unexpired discount)

Note: However, if the account of unexpired discount is given inside the trial balance, it is shown only in the balance sheet.

The Rebate A/c is shown on the liability side of the Balance Sheet as income received which has not accrued before the close of the year. Immediately on commencement of next financial year the Rebate A/c is closed by transfer to the credit of Discount A/c.

Illustration 1

The following is an extract from Trial Balance of overseas Bank as at 31st March, 2013

	₹	₹
Bills discounted	*12,64,000*	
Rebate on bills discounted not due on March 31st, 2012		*22,160*
Discount received		*1,05,708*

An analysis of the bills discounted is as follows:

	Amount ₹	*Due Date 2013*	*Rate of Discount* (%)
(i)	*1,40,000*	*June 5*	*14*
(ii)	*4,36,000*	*June 12*	*14*
(iii)	*2,82,000*	*June 25*	*14*
(iv)	*4,06,000*	*July 6*	*16*

Calculate Rebate on Bills Discounted as on 31-3-2013 and show necessary journal entries.

Solution

In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below :

(i) The bill is due on 5th June; hence the number of days after March 31st, is 66. The discount on ₹ 1,40,000 for 66 days @ 14% per annum will be

$14/100 \times 66/365 \times$ ₹ 1,40,000 = ₹ 3,544.

(ii) Number of days in the unexpired portion of the bill is 73: discount on ₹ 4,36,000 for 73 days @ 14% per annum will be ₹ 12,208.

(iii) Number of days in the unexpired portion of the period of the bill is 86: discount on

₹ 2,82,000 for 86 days @ 14% per annum will be ₹ 9,302.

(iv) Number of days in the unexpired portion of the period of the bill is 97: discount on ₹ 4,06,000 for 97 days @ 16 % p.a. will be ₹ 17,263.

The amount of discount to be credited to the Profit and Loss Account will be:

	₹
Transfer from Rebate on bills discount as on 31-3-2012	22,160
Add: Discount received during the year ended 31-3-2013	1,05,708
	1,27,868
Less: Rebate on bills discounted as on 31.3.2013(3,544 + 12,208 + 9,302+ 17,263)	(42,317)
	85,551

The journal entries will be as follows :

		Dr. ₹	*Cr.* ₹
Rebate on Bills Discounted A/c	Dr.	22,160	
To Discount on Bills A/c			22,160
(Being the transfer of Rebate on Bills Discounted on 31-3-2011 to Discount on Bills Account)			
Discount on Bills A/c	Dr.	42,317	
To Rebate on Bills Discounted A/c			42,317
(Being the transfer of rebate on bills discounted required on 31-3-2011 from discount on Bills Account)			
Discount on Bills A/c	Dr.	85,551	
To Profit and Loss A/c			85,551
(Being the amount of discount on Bills transferred to Profit and Loss Account)			

Note: In the Profit and Loss Account, the discount on bills will not appear as a separate item but will be included in the heading Interest/Discount on advances/bills as per Form B of the new format.

Illustration 2

On 31st March, 2012, Uncertain Bank had a balance of ₹ 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2013, Uncertain Bank discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation

from the acceptors/customers after 31st March, 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Uncertain Bank asks you to pass journal entries and show the ledger accounts pertaining to:

(i) discounting of bills of exchange and

(ii) rebate on bills discounted.

Solution

Uncertain Bank
Journal Entries

(Rupees in crores)

		Dr. ₹	*Cr.* ₹
Rebate on bills discounted A/c	Dr.	9.00	
To Discount on bills A/c			9.00
(Being the transfer of opening balance in rebate on bills discounted account to discount on bills account)			
Bills purchased and discounted A/c	Dr.	4000.00	
To Discount on bills A/c			144.00
$\left[₹\ 4{,}000 \text{ crores} \times \frac{18}{100} \times \frac{73}{365}\right]$			
To Clients A/c			3,856.00
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	10.80	
To Rebate on bills discounted A/c			10.80
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward 18% of 600 crs for average period of 36.5 days)			
Discount on bills A/c	Dr.	142.20	
To Profit and loss A/c			142.20
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and Loss A/c)			

Ledger Accounts

(i) **Discount on bills Account**

2013		₹	*2012*		₹
March 31	To Rebate on bills discounted A/c	10.80	April 1	By Rebate on bills discounted A/c	9.00

	To Profit and loss A/c	142.20	2012-13	By Bills purchased and discounted A/c	144.00
		153.00			153.00

(ii) **Rebate on bills discounted Account**

2012		₹	2012		₹
April 1	To Discount on bills A/c	9.00	April 1	By Balance b/d	9.00
2013 March 31,	To Balance c/d	10.80	2013 March 31	By Discount on bills A/c	10.80
		19.80			19.80

Illustration 3

The following information is available in the books of X Bank Limited as on 31st March, 2013:

	₹
Bills discounted	*1,37,05,000*
Rebate on Bills discounted (as on 1.4.2012)	*2,21,600*
Discount received	*10,56,650*

Details of bills discounted are as follows:

Value of bill (₹)	Due date	*Rate of Discount*
18,25,000	5.6.2013	*12%*
50,00,000	12.6.2013	*12%*
28,20,000	25.6.2013	*14%*
40,60,000	6.7.2013	*16%*

Calculate the rebate on bills discounted as on 31.3.2013 and give necessary journal entries.

Solution

Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2013	Rate of discount	Discount Amount
18,25,000	5.6.2013	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2013	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2013	(30+31+25) = 86	14%	93,021
40,60,000	6.7.2013	(30+ 31+ 30+ 6) = 97	16%	1,72,633
1,37,05,000	Rebate on bills discounted on 31.3.2013			4,25,254

In the books of X Bank Ltd.
Journal Entries

(i)	Rebate on bills discounted Account	Dr.	2,21,600	
	To Discount on bills Account			2,21,600
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Discount on bills Account	Dr.	4,25,254	
	To Rebate on bills discounted Account			4,25,254
	[Being provision made on 31st March, 2013]			
(iii)	Discount on bills Account	Dr.	8,52,996	
	To Profit and loss Account			8,52,996
	[Being transfer of discount on bills, of the year, to profit and loss account)			

Credit to Profit and Loss A/c will be as follows: ₹ (10,56,650 + 2,21,600 – 4,25,254) = ₹ 8,52,996

Illustration 4

Calculate Rebate on Bills discounted as on 31 December, 2013 from the following data and show journal entries:

	Date of Bill	*₹*	*Period*	*Rate of Discount*
(i)	*15.10.13*	*25,000*	*5 months*	*8%*
(ii)	*10.11.13*	*15,000*	*4 months*	*7%*
(iii)	*25.11.13*	*20,000*	*4 months*	*7%*
(iv)	*20.12.13*	*30,000*	*3 months*	*9%*

Solution

(a) Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December 2013	Discount Rate	₹
25,000	18-03-2014	31 + 28 + 18 = 77	8%	421.92
15,000	13-03-2014	3 1 + 28 + 13 = 72	7%	207.12
20,000	28-03-2014	3 1 + 28 + 28 = 87	7%	333.69
30,000	23-03-2014	3 1 + 28 + 23 = 82	9%	606.57
		Total		1569.30

Journal Entry

Date	Particulars	Debit ₹	Credit ₹
Dec. 31	Interest and Discount Account Dr.	1569.30	
	To Rebate on Bills Discounted		1569.30
	(Being the provision for unexpired discount required at the end of the year)		

5.1.2 Collection of Bills: One of the services provided by banks to their customers is to collect the dues against Bills of Exchange from their customers on the due dates. Where the bills have been discounted the proceeds of such bills on due date are treated as incomes of the bank. On the other hand, if bills have not been discounted, the proceeds on the same on maturity are credited to the account of the customer. The particulars will be recorded in a separate book called Bills for Collection Register. Bills sent for collection have to be shown by way of Note as per Third Schedule.

Two Accounts have to be opened. They are mirror images of each other. They are:

(i) Bills for Collection (Asset)

(ii) Bills for Collection (Liability)

Illustration 5

On 01.04.2013 bills for collection was 7 lacs. During 2013-14 bills received for collection amounted to 64.5 lacs. Bills collected were 47 lacs. Bills dishonoured was 5.5 lacs. Prepare Bills for collection (Assets) and Bills for Collection (Liabilities) Accounts.

Solution

Bills for Collection (Assets) Account

	₹ in lacs		₹ in lacs
To Balance b/d	7	By Bills for collection	47
To Bills for collection	64.5	By Bills dishonoured	5.5
		By Balance c/d	19
	71.5		71.5

Bills for Collection (Liabilities) Account

	₹ in lacs		₹ in lacs
To Bills for collection	47	By Balance b/d	7
TBills dishonoured	5.5	By Bills for collection	64.5
By Balance c/d	19		
	71.5		71.5

5.1.3 Acceptance and Endorsement: A bank has more acceptable credit as compared to that of its customer, because of this more often than not the bank is called to accept or endorse a bill on behalf of its customers. The bank has to honour this acceptance on behalf of its client only in the event of a client failing to honour the bill on the due date.

As against this liability, the bank has a corresponding claim against the customer on whose behalf it has undertaken to be a party to the bill, either as an acceptor or as an endorser.

Such Acceptance (Liabilities) which are outstanding at the close of the year and the corresponding asset (security) is disclosed as Contingent liability. As a safeguard against the customer not being able to meet the demand of the bank in this respect, usually the bank requires the customer to deposit a security equivalent to the amount of the bill accepted on his behalf.

If the bill, at the end of its term, has to be retired by the bank and the amount cannot be collected from the customer on demand, the bank reimburses itself by disposing of the security deposited by the customer.

5.1.3.1 Drafts and telegraphic Remittances: When a bank issues a bank draft on another bank or on its branch, it credits the account of the bank or that of the branch with amount of the draft. The corresponding debit is raised in the account of the customer. His account is also debited with the remittances. A similar procedure is adopted in case of telegraphic transfer made on account of customers.

5.1.3.2 Letters of Credit and Travellers' Cheques: These are issued as a facility to travellers within the country or abroad. In either case, the person desiring such instruments of credit, to be issued in his favour or some other party is made to deposit the full value of the letter of credit or travellers' cheques issued in his favour.

The amount deposited by the customer is placed to the credit of Letters of Credit Account or Travellers' Cheques Account, as the case may be. When the bills of Exchanges drawn against the Letters of credit are received for payment, the amount is debited to the Letter of Credit Account. Similarly, the travellers' cheques, when presented are debited to the Travellers' Cheque Account. In the case of customers desiring travellers' cheques in a foreign currency, the equivalent value thereof in home currency in collected from them at the rate of exchange prevailing on the date of issue of the traveller's cheque and the bank either purchases immediately the amount of foreign exchange equal to the value of the travellers' cheque issued, or transfers out of its balances of foreign currency an amount equivalent to the value of travellers' cheques to the Travellers' Cheques Account. In the case of letters of credit in foreign currency, the same procedure is followed.

The transactions entered into for rendering other services *e.g.*, collection of dividend and interest, making periodical payments etc. do not involve any complicated accounting. Basically, when any amount is collected for a customer as dividend or interest, his account is credited and cash is debited. Correspondingly, wherever any payment is made on account of a customer, his account is debited and cash is credited. Usually a separate charge is made for such a service.

Illustration 6

From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the General Ledger.

On 1.4.2013 Acceptances not yet satisfied stood at ₹ 22,30,000. Out of which ₹ 20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register (for transactions during the year) revealed the following :

ClientAcceptances/GuaranteesRemarks

	₹	
A	*10,00,000*	*Bank honoured on 10.6.2013*
B	*12,00,000*	*Party paid off on 30.9. 2013*
C	*5,00,000*	*Party failed to pay and bank had to honour on 30.11.2013*
D	*8,00,000*	*Not satisfied upto 31.3.2014*
E	*5,00,000*	*-do-*
F	*2,70,000*	*-do-*
Total	*42,70,000*	

Solution

Acceptances, Endorsements and other Obligation Account
(in general ledger)

		₹ '000			₹ '000
2013-14	To Constituents' liabilities for acceptances/guarantees etc.		1.4.13	By Balance b/d	22,30
	(Paid off by clients)	20,00	2013-14	By Constituents' liabilities for	
	To Constituent's liabilities for			A 10,00	
	acceptances/guarantees etc.	2,30		B 12,00	
	(Honoured by bank			C 5,00	
	₹ 22.30 lakhs less			D 8,00	
	₹ 20 lakhs)			E 5,00	
10.6.2013	To Constituents' liabilities for acceptances/guarantees etc.			F 2,70	42,70
	(Honoured by bank)	10,00			
30.9.2013	To Constituents' liabilities for acceptances/guarantees etc.				
	(Paid off by party)	12,00			
30.11.2013	To Constituent's liabilities for				

31.3.2014	acceptances/guarantees etc. (Honoured by bank on party's failure to pay) To Balance c/d (Acceptances not yet satisfied)	5,00 15,70			
		65,00			65,00

Illustration 7

Following facts have been taken out from the records of Adarsha Bank in respect of the year ending March 31, 2013:

(a) On 1-4-2012 Bills for collection were ₹ 7,00,000. During 2012-2013 bills received for collection amounted to ₹ 64,50,000, bills collected were ₹ 47,00,000 and bills dishonoured and returned were ₹ 5,50,500. Prepare Bills for Collection (Assets) A/c and bills for Collection (Liability) A/c.

(b) On 1-4-2012, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 14,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 44,00,000. Bank honoured acceptances to the extent of ₹ 25,00,000 and client paid off ₹ 10,00,000 against the guaranteed liability. Clients failed to pay ₹ 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other Obligations A/c" as it would appear in the General ledger.

(c) It is found from the books, that a loan of ₹ 6,00,000 was advanced on 30-9-2012 @ 10 per cent p.a. interest payable half yearly; but the loan was outstanding as on 31-3-2013 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 10,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 as per the Stock Exchange information as on 30th Sept., 2012). But due to fluctuations, the price fell to ₹ 40 per share in January, 2013. On 31-3-2013, the price as per Stock Exchange rate was ₹ 82 per share. State how you would classify the loan as secured/unsecured in the Balance Sheet of the Company.

(d) The following balances are extracted from the Trial Balance as on 31-3-2013:

	Dr. *₹*	*Cr.* *₹*
Interest and Discounts		*98,00,000*
Rebate for bills discounted		*20,000*
Bills discounted and purchased	*4,00,000*	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2012-2013 amount to ₹ 14,000. Prepare Ledger Accounts.

Solution

(a) Bills for Collection (Assets) A/c

2012		₹	*2012-13*		₹
Apr. 1	To Balance b/d	7,00,000		By Bills for Collection (Liabilities) A/c	47,00,000
2012-13	To Bills for Collection (liabilities) A/c	64,50,000		By Bills for collection (Liabilities) A/c	5,50,500
			2013 Mar. 31	By Balance c/d	18,99,500
		71,50,000			71,50,000

Bills for Collection (Liabilities) Account

2012-13		₹	*2012*	₹	
	To Bills for collection (Assets) A/c	47,00,000	Apr. 1	By Balance b/d	7,00,000
	To Bills for Collection (Assets) A/c	5,50,500	2012-13	By Bills for collection (Assets) A/c	64,50,000
2013 Mar. 31	To Balance c/d	18,99,500			
		71,50,000			71,50,000

(b) Acceptances, Endorsement & other Obligation Account

2012-13		₹	*2012*		₹
	To Constituents' Liability for Acceptance, Endorsement, etc.	25,00,000	Apr. 1	By Balance b/d	14,50,000
	To Constituents' Liability for Acceptances, Endorsement etc.	10,00,000	2012-13	By Constituents, Liabilities for Acceptances, Endorsements, etc.	44,00,000
	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	1,00,000			
Mar. 31	To Balance c/d	22,50,000			
		58,50,000			58,50,000

(c) For classifying loans as fully secured or otherwise, the value of the security as on the last date of the year is considered. The value of the security is ₹ 8,20,000 covering the loan and the interest due comfortably. Hence it is to be treated as good and fully secured.

(d) **Rebate on Bills Discounted Account**

		₹			₹
2012-13	To Interest and Discount A/c	6,000	2012 Apr. 1	By Balance b/d	20,000
2013 Mar. 31	To Balance c/d	14,000			
		20,000			20,000

Interest & Discount Account

2013		₹	*2012*		₹
Mar. 31	To Profit & Loss A/c	98,06,000	Apr. 1	By Balance b/d	98,00,000
			2012-13	By Rebate on Bills discounted A/c	6,000
		98,06,000			98,06,000

Unit – 6 : Preparation of Financial Statements of Banks

Learning Objectives

After studying this unit, you will be able to:

- Learn how to prepare profit and loss account of a bank.
- Compute tax provision, transfer to statutory reserve, provisions on non-performing assets, income recognition on NPA, depreciation on current investments.
- Learn how to prepare Balance-sheet.

6.1 Introduction

Forms for the preparation and presentation of financial statements of banking companies have been given in Annexure I & II along with compliance guidelines of RBI given in Annexure III after the chapter. In this unit we shall straightaway go to the problems relating to preparation of final accounts of banks.

Illustration 1

From the following information, prepare a Balance Sheet of ADT International Bank as on 31st March, 2013 giving the relevant schedules and also specify at least four important Principal Accounting Polices :

₹ in lakhs

	Dr.	Cr.
Share Capital		198.00
19,80,000 Shares of ₹ 10 each		
Statutory Reserve		231.00
Net Profit before Appropriation		150.00
Profit and Loss Account		412.00
Fixed Deposit Account		517.00
Savings Deposit Account		450.00
Current Accounts	28.00	520.12
Bills Payable		0.10
Cash credits	812.10	
Borrowings from other Banks		110.00
Cash in Hand	160.15	
Cash with RBI	37.88	
Cash with other Banks	155.87	
Money at Call	210.12	
Gold	55.23	

Government Securities	110.17	
Premises	155.70	
Furniture	70.12	
Term Loan	792.88	
	2,588.22	2,588.22

Additional Information:

Bills for collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debt	55,000
Depreciation charges—Premises	1,10,000
Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured.

Solution

Balance Sheet of ADT International Bank
As on 31st March, 2013

(₹ in lacs)

Capital and Liabilities	**Schedule**	**As on 31.3.13**	**As on 31.3.12**
Share Capital	1	1,98.00	
Reserves and Surplus	2	7,93.00	
Deposits	3	14,87.12	
Borrowings	4	1,10.00	
Other liabilities and provisions	5	0.10	
		25,88.22	
Assets			
Cash and balances with RBI	6	219.63	
Balances with banks and money at call and short notice	7	344.39	
Investments	8	1,65.40	
Advances	9	16,32.98	
Fixed Assets	10	2,25.82	
Other Assets	11	–	
		25,88.22	
Contingent liabilities	12	14.67	
Bills for collection		18.10	

Schedule 1— Capital

Authorised Capital	–
Issued, Subscribed and	
Paid up Capital	
19,80,000 Shares of ₹ 10 each	1,98.00

Schedule 2— Reserves and Surplus

(1)	Statutory Reserve-		
	Opening balance	2,31.00	
	Additions during the year	37.50	
			268.50
(2)	Balance in Profit & Loss		
	Account *(W.N. 1)*		524.50
			7,93.00

Schedule 3— Deposits

(i)	Demand deposits from others	5,20.12
(ii)	Saving bank deposits	4,50.00
(iii)	Fixed Deposits	5,17.00
		14,87.12

Schedule 4— Borrowings

Borrowing in India-	
Other banks	1,10.00

Schedule 5— Other Liabilities and Provisions

Bills Payable	0.10

Schedule 6— Cash and balances with RBI

(i)	Cash in hand	1,60.15
(ii)	Balances with RBI	
	In current account *(W.N. 2)*	59.48
		219.63

Schedule 7—Balances with banks and money at call and short notice

1.	In India	
	(i) Balances with banks	
	(a) in current accounts *(W.N. 3)*	1,34.27
	(ii) Money at call and short notice	2,10.12
		344.39

Schedule 8— Investments

(1)	Investment in India in	
	(i) Government securities	1,10.17
	(ii) Others—Gold	55.23
		1,65.40

Schedule 9— Advances

A.	(i)	Cash credits, overdrafts (includes Dr Bal in Current A/c as ODs)	8,40.10
	(ii)	Term Loans	7,92.88
			16,32.98
B	(i)	Secured by tangible assets (balancing fig)	11,52.53
	(ii)	Secured by bank/government guarantees	3,96.44
	(iii)	Unsecured	84.01
			16,32.98

Schedule 10— Fixed Assets

1.	Premises	
	At cost on 31st March, 2012	156.80
	Depreciation to date	1.10
		155.70
2.	Other Fixed Assets	
	Furniture at cost on 31st March, 2012	70.90
	Depreciation to date	0.78
		70.12
	Total (1 + 2)	2,25.82

Schedule 11— Other Assets

Nil

Schedule 12— Contingent Liabilities

(₹ in lakhs)

(i)	Claims against bank not acknowledged as debts	0.55
(ii)	Acceptances, endorsements	14.12
		14.67

Working Note :

(1) Balance in Profit & Loss Account : (₹ in lakhs)

Net Profit before appropriation	1,50.00
Add : Profit for the year	4,12.00
	5,62.00
Less : Transfer to statutory reserve (25% of 150.00)	(37.50)
	524.50

(2) Transfer from Cash with other banks to Cash with RBI (when CRR is required to be maintained at 4% of deposits w.e.f. January 29, 2013)

Cash reserve required (14,87.12 x 4%)	59.48
Cash with RBI	(37.88)
Transfer needed to maintain cash reserve	21.60

(3) Liquid Assets :

Cash on hand	1,60.15
Cash with other Banks	1,55.87
Money at call and short notice	2,10.12
Gold	55.23
Government securities	1,10.17
	6,91.54
Excess liquidity [6,91.54 – (1487.12 x 23%)] or (6,91.54 – 342.04)	349.50

The excess liquidity enables the transfer as per (2) above.

After the transfer, Cash with other Banks = ₹ (in lakhs) (1,55.87 - 21.60) = ₹ (in lakhs) 134.27.

Principal Accounting Policies:

(a) Foreign Exchange Transactions

(i) Monetary assets and liabilities have been translated at the exchange rate prevailing at the close of year. Non-monetary assets have been carried in the books at the historical cost.

(ii) Income and Expenditure items in respect of Indian branches have been translated at the exchange rates on the date of transactions and in respect of foreign branches at the exchange rates prevailing at the close of the year.

(iii) Profit or Loss on foreign currency position including pending forward exchange contracts have been accounted for at the exchange rates prevailing at the close of the year.

(b) Investment: Permanent category investments are valued at cost. Valuation of investment in current category depends on the nature of securities. While valuation of government securities held as current investments have been made on yield to maturity basis, the investments in shares of companies are valued on the basis of book value.

(c) Advances: Advances due from sick nationalised units under nursing programmes and in respect of various sticky, suit filed and decreed accounts have been considered good on the basis of–

(i) Available estimate value of existing and prospective primary and collateral securities including personal worth of the borrowers and guarantors.

(ii) The claim lodged/to be lodged under various credit guarantee schemes.

(iii) The claim lodged/to be lodged under various credit guarantee schemes.

(iv) Pending settlement of claims by Govt.

Provisions to the satisfaction of auditors have been made and deducted from advances. Tax relief available when the advance is written off will be accounted for in the year of write-off.

(d) Fixed Assets: The premises and other fixed assets except for foreign branches are accounted for at their historical cost. Depreciation has been provided on written down value method at the rates specified in the Income Tax Rules, 1962. Depreciation in respect of assets of foreign branches has been provided as per the local laws.

Illustration 2

From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31-3-2013 :

₹ '000	*Item*	*₹ '000*
2011-12		*2012-13*
14,27	*Interest and Discount*	*20,45*
1,14	*Income from investment*	*1,12*

1,55	*Interest on Balances with RBI*	*1,77*
7,22	*Commission, Exchange and Brokerage*	*7,12*
12	*Profit on sale of investments*	*1,22*
6,12	*Interest on Deposits*	*8,22*
1,27	*Interest to RBI*	*1,47*
7,27	*Payment to and provision for employees*	*8,55*
1,58	*Rent, taxes and lighting*	*1,79*
1,47	*Printing and stationery*	*2,12*
1,12	*Advertisement and publicity*	*98*
98	*Depreciation*	*98*
1,48	*Director's fees*	*2,12*
1,10	*Auditor's fees*	*1,10*
50	*Law charges*	*1,52*
48	*Postage, telegrams and telephones*	*62*
42	*Insurance*	*52*
57	*Repair & maintenance*	*66*

Also give necessary Schedules.

Other Information:

(i) The following items are already adjusted with Interest and Discount (Cr.):

Tax Provision ('000 ₹)	*1,48*
Provision for Doubtful Debts ('000 ₹)	*92*
Loss on sale of investments ('000 ₹)	*12*
Rebate on Bills discounted ('000 ₹)	*55*

(ii) Appropriations :

25% of profit is transferred to Statutory Reserves

5% of profit is transferred to Revenue Reserve.

Solution

Dimple Bank

Profit and Loss Account for the year ended 31-3-2013

		Schedule No.	Year ended 31-3-2013	(₹ 000's) Year ended 31-3-2012
I.	**Income**			
	Interest Earned	13	25,86	16,96

	Other Income	14	8,22	7,34
	Total		34,08	24,30
II.	**Expenditure**			
	Interest Expended	15	9,69	7,39
	Operating Expenses	16	20,96	16,97
	Provisions and Contingencies		2,40	
	Total		33,05	24,36
III.	**Profit/Loss**			
	Net Profit/Loss (—) for the year		1,03	(6)
	Profit/Loss (—) brought forward		(6)	
	Total		97	(6)
IV.	**Appropriations**			
	Transfer to Statutory Reserve		25.75	
	Transfer to Other Reserve, Proposed Dividend		5.15	
	Balance carried over to Balance Sheet		66.10	
	Total		97.00	

Schedule 13 - Interest Earned

(₹ 000's)

		Year ended 31-3-2013	*Year ended 31-3-2012*
I.	Interest/Discount	22,97	14,27
II.	Income on Investments	1,12	1,14
III.	Interest on Balances with RBI and other inter-bank fund	1,77	1,55
IV.	Others		–
	Total	25,86	16,96

Schedule 14 - Other Income

(₹ 000's)

			Year ended 31-3-2013	*Year ended 31-3-2012*
I.	Commission, Exchange and Brokerage		7,12	7,22
II.	Profit on Sale of Investments	1,22		12

Less: Loss on sale of Investments	(12)	1,10	
Total		8,22	7,34

Schedule 15 - Interest Expended

			(₹ 000's)
		Year ended 31-3-2013	*Year ended 31-3-2012*
I.	Interest on Deposits	8,22	6,12
II.	Interest on RBI/inter-bank borrowings	1,47	1,27
	Total	9,69	7,39

Schedule 16 - Operating Expenses

			(₹ 000's)
		Year ended 31-3-2013	*Year ended 31-3-2012*
I.	Payments to and provision for employees	8,55	7,27
II.	Rent, taxes and lighting	1,79	1,58
III.	Printing and stationery	2,12	1,47
IV.	Advertisement and Publicity	98	1,12
V.	Depreciation on the Bank's Property	98	98
VI.	Director's fees, allowances and expenses	2,12	1,48
VII.	Auditor's fees and expenses (including branch auditors)	1,10	1,10
VIII.	Law charges	1,52	50
IX.	Postage, telegrams, telephones etc.	62	48
X.	Repairs and maintenance	66	57
XI.	Insurance	52	42
XII.	Other Expenditure		–
	Total	20,96	16,97

Illustration 3

From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 2013:

Items	*₹ 000*
Interest on cash credit	*18,20*
Interest on overdraft	*7,50*
Interest on term loans	*15,40*
Income on investments	*8,40*
Interest on balance with RBI	*1,50*
Commission on remittances and transfer	*75*
Commission on letters of credit	*1,18*
Commission on government business	*82*
Profit on sale of land and building	*27*
Loss on exchange transactions	*52*
Interest paid on deposit	*27,20*
Auditors' fees and allowances	*1,20*
Directors' fees and allowances	*2,50*
Advertisements	*1,80*
Salaries, allowances and bonus to employees	*12,40*
Payment to Provident Fund	*2,80*
Printing and stationery	*1,40*
Repairs and maintenance	*50*
Postage, telegrams, telephones	*80*

Other Information:

(i) *Interest on NPA is as follows*

	Earned (₹ '000)	*Collected (₹ '000)*
Cash credit	*8,20*	*40,00*
Overdraft	*450*	*1,00*
Term Loans	*750*	*2,50*

(ii) *Classification of Non Performing Advances ('000 ₹)*

Standard	*30,00*
Sub-standard	*11,20*
Doubtful assets not covered by security	*2,00*
Doubtful assets covered by security for one year	*50*
Loss Assets	*2,00*
(iii) Investments	*27,50*

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-2013.

Solution

KC Bank
Profit and Loss Account
For the year ended 31st March, 2013

	Particulars	Schedule	(₹ '000') Year ended 31-3-2013
I	**Income**		
	Interest earned	13	38,30
	Other income	14	2,50
			40,80
II	**Expenditure**		
	Interest expended	15	27,20
	Operating expenses	16	23,40
	Provisions and Contingencies		680.00
			57,40
III	**Profit/Loss**		(16,60)
IV	**Appropriations**		Nil

Schedule 13 - Interest Earned

			Year ended 31-3-2013 (₹ '000')
I	Interest/discount on advances/bills		
	Interest on cash credit ₹ (18,20-420)	14,00	
	Interest on overdraft ₹ (750-350)	4,00	
	Interest on term loans ₹ (15,40-500)	10,40	28,40
II	Income on investments		8,40
III	Interest on Balance with RBI		1,50
			38,30

Interest on NPA is recognised on cash basis, hence excess reduced

Schedule 14 - Other Income

			Year ended 31-3-2013 (₹ '000')
I	Commission, Exchange and Brokerage		
	Commission on remittances and transfer	75	
	Commission on letter of credit	1,18	
	Commission on Government business	82	2,75

II	Profit on sale of Land and Building			27
III	Loss on Exchange Transactions			(52)
				2,50

Schedule 15 - Interest Expended

		Year ended 31-3-2013
I	Interest on Deposits	27,20

Schedule 16 - Operating Expenses

			Year Ended 31-3-2013
I	Payment and provision for employees		
	Salaries, allowances and bonus	12,40	
	Provident Fund Contribution	2,80	15,20
II	Printing and Stationery		1,40
III	Advertisement and publicity		1,80
IV	Directors' fees, allowances and expenses		2,50
V	Auditors' fees and expenses		1,20
VI	Postage, telegrams, telephones etc.		80
VII	Repairs and maintenance		50
			23,40

Working Note:

Provisions and contingencies			*(₹'000)*
Provision for NPA :			
Standard	3,000 × 0.40%		12
Sub-standard	1,120 × 15%*		1,68
Doubtful not covered by security	200 × 100%		2,00
Doubtful covered by security for one year	50 × 25%		12.5
Loss Assets	(200 × 100%)		2,00
			592.5
Depreciation on current investments			
Cost (75% of 27,50)		2,062.50	
Less : Market value		(1,975.00)	87.5
			680.00

Note: 25% of the total investments are held to maturity. In the case of Held to Maturity investments the valuation is done at cost and these are not marked to market value generally.

* It is assumed that sub-standard asset is fully secured.

Hence, depreciation on investments has been calculated only on other investments which can either be Held for Trading (HFT) or Available for Sale (AFS)

Illustration 4

The following are the ledger balances (in Rupees thousands) extracted from the books of Vaishnavi Bank as on March 31, 2013 :

	Dr.	*Cr.*
Share Capital		*19,00,00*
Current accounts control		*9,70,00*
Employee security deposits		*74,20*
Investments in Govt. of India Bonds	*9,43,70*	
Gold Bullion	*1,51,30*	
Silver	*20,00*	
Constituent liabilities for acceptances and endorsements	*5,65,00*	*5,65,00*
Borrowings from banks		*7,72,30*
Building	*6,50,00*	
Furniture	*50,00*	
Money at call and short notice	*2,60,00*	
Commission & brokerage		*2,53,00*
Saving accounts		*1,50,00*
Fixed deposits		*2,30,50*
Balances with other banks	*4,63,50*	
Other investments	*5,56,30*	
Interest accrued on investments	*2,46,20*	
Reserve Fund		*14,00,00*
P & L A/c		*65,00*
Bills for collection	*4,35,00*	*4,35,00*
Interest		*6,20,00*
Loans	*18,10,00*	
Bills discounted	*1,25,00*	
Interest	*79,50*	
Discounts		*4,20,00*
Rents		*6,00*
Audit fees	*50,00*	
Depreciation reserve (furniture)		*2,00*
Salaries	*2,12,00*	
Rent, rates and taxes	*1,20,00*	

Cash in hand and with Reserve Bank	*7,50,00*	
Miscellaneous income		*39,00*
Depreciation reserve (building)		*8,00*
Directors fees	*10,00*	
Postage	*12,50*	
Loss on sale of investments	*2,00,00*	
Branch adjustments	*2,00,00*	
	79,10,00	*79,10,00*

Other Information:

The bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2013 are required to be prepared in appropriate form. Further information (in Rupees thousands) available is as follows —

(a) Rebate on bills discounted to be provided 40,00

(b) Depreciation for the year

Building	*50,00*
Furniture	*5,00*

(c) Included in the current accounts ledger are accounts overdrawn to the extent of 25,00.

Solution

Balance Sheet of Vaishnavi Bank
as on 31st March, 2013

(₹ '000)

Capital and Liabilities	*Schedule*	*As on 31-3-2013*	*As on 31-3-2012*
Capital	1	19,00,00	
Reserves & Surplus	2	20,24,00	
Deposits	3	13,75,50	
Borrowings	4	7,72,30	
Other liabilities and provisions	5	1,14,20	
Total		61,86,00	

(₹ '000)

Assets	*Schedule*	*As on 31-3-2013*	*As on 31-3-2012*
Cash and balance with Reserve Bank of India	6	7,50,00	

Balances with bank and Money at call and short notice	7	7,23,50	
Investments	8	16,71,30	
Advances	9	19,60,00	
Fixed Assets	10	6,35,00	
Other Assets	11	4,46,20	
Total		61,86,00	
Contingent liabilities	12	5,65,00	
Bills for collection		4,35,00	

Vaishnavi Bank

Profit and Loss Account for the year ended 31-3-2013

(₹ '000)

I.	**Income**		
	Interest & Discount	13	10,00,00
	Other income	14	98,00
			10,98,00
II.	**Expenditure**		
	Interest Expended	15	79,50
	Operating Expenses	16	4,59,50
	Provisions and Contingencies		-
			5,39,00
III.	**Profits/Loss**		
	Net profit for the year		5,59,00
	Profit b/f		65,00
			6,24,00
IV.	**Appropriations**		
	Transfer to Statutory Reserve		1,39,75
	Balance carried over to Balance Sheet		4,84,25
			6,24,00

Schedule 1 - Capital

(₹ '000)

		As on 31-3-2013
I.	For Other Banks	
	Authorised Capital	
	Shares of ₹ ... each	–
	Issued Capital	

Shares of ₹ ... each	–
Subscribed Capital	
Shares of ₹ ... each	–
Called up capital	
Shares of ₹ ... each	19,00,00
	19,00,00

Schedule 2 - Reserves & Surplus

		As on 31-3-2013
I.	Statutory Reserves	
	Opening Balance	14,00,00
	Additions during the year	1,39,75
		15,39,75
II.	Balance in Profit and Loss Account	4,84,25
	Total	20,24,00

Note: Transfer to Statutory Reserve should be 25% of the Net Profits for the current year

Schedule 3 - Deposits

(*₹ '000*)

		As on 31-3-2013
A. I.	Demand Deposits	9,95,00
II.	Saving Bank Deposits	1,50,00
III.	Term Deposits	2,30,50
		13,75,50

Schedule 4 - Borrowings

		As on 31-3-2013
I.	Borrowings in India	
	(ii) Other banks	7,72,30
	Total	7,72,30

Schedule 5 - Other liabilities and provisions

		As on 31-3-2013
I.	Other liabilities including provisions:	
	Rebate on bills discounted	40,00
	Employees Security Deposit	74,20
	Total	1,14,20

Schedule 6 - Cash and Balances with Reserve Bank of India

			As on 31-3-2013
I.	Cash in hand (including foreign currency notes)		3,50,00
II.	Balances with Reserve Bank of India:		
	(i)	In Current Account	3,20,00
	(ii)	In Other Account	80,00
	Total		7,50,00

(Details are not based on figures given in the question)

Schedule 7 - Balances with Banks & Money at Calls & Short Notice

		As on 31-3-2013
I. (i)	In India Balances with banks	
(*a*)	in Current accounts	
(*b*)	in Other accounts	2,63,50
(ii)	Money at call and short notice	2,00,00
(*a*)	with banks	
(*b*)	with other institutions	2,30,00
	Total (i + ii)	30,00
		7,23,50

Schedule 8 - Investments

(*₹ '000*)

		As on 31-3-2013
I.	Investments in India in	
	(i) Government securities	9,43,70
	(ii) Shares (assumed)	5,56,30
	(iii) Gold	1,51,30
	(iv) Silver	20,00
	Total	16,71,30

Schedule 9 - Advances

			As on 31-3-2013
A.	(i)	Bills purchased and discounted	1,25,00
	(ii)	Cash credits, overdrafts and loans repayable on demand	18,35,00
			19,60,00

B.	(i)	Secured by tangible assets	12,00,00
	(ii)	Secured by Bank/Govt. Securities	2,00,00
	(iii)	Unsecured	5,60,00
			19,60,00
C.	I.	Advances in India	
	(i)	Priority sector	8,00,00
	(ii)	Public sector	1,00,00
	(iii)	Banks	20,00
	(iv)	Others	10,40,00
		Total	19,60,00

(Details are assumed)

Current Accounts Control A/c shows a Credit Balance of ₹ 9,70,000/-. In the additional information it is mentioned that in the above balance an OD of ₹ 25,000/- is included. Hence for presentation of the Balance Sheet the entries will be as under:

Current Accounts 9,95,000 to be shown under deposits

ODs in Current Accounts To be shown as Advances along with cash credits & T Loans

Schedule 10 - Fixed Assets

			As on 31-3-2013
I.	Premises		
	At cost as on 31st March, 2012	6,42,00	
	Depreciation to date	(50,00)	5,92,00
II.	Other fixed articles (including Furniture and Fixture)		
	At cost as on 31st March, 2012	48,00	
	Depreciation to date	(5,00)	43,00
	Total (I & II)		6,35,00

Schedule 11 - Other Assets

		As on 31-3-2013
I.	Inter-office adjustments (net)	2,00,00
II.	Interest accrued	2,46,20
		4,46,20

Schedule 12 - Contingent Liabilities

		Year ended 31-3-2013
I.	Acceptances, endorsements and other obligations	5,65,00
	Total	5,65,00

Schedule 13 : Interest Earned

	Year ended 31-3-2013
I. Interest/discount on advances, bills (6,20,00 + 4,20,00 –40,00)	10,00,00
Total	10,00,00

Schedule 14 : Other Income

			Year ended 31-3-2013
I.	Commission, Exchange and Brokerage	2,53,00	
II.	Profit on sale of investments		
	Less : Loss on sale on investments	(2,00,00)	53,00
III.	Miscellaneous Income		
	Rent and Other Receipts		45,00
	Total		98,00

Schedule 15 : Interest Expended

		Year ended 31-3-2013
I.	Interest on Deposits	79,50
	Total	79,50

Schedule 16 : Operating Expenses

		Year ended 31-3-2013
I.	Payments to and provisions for employees	2,12,00
II.	Rent, Taxes and Lighting	1,20,00
III.	Depreciation on Bank's property	55,00

IV.	Director's fees, allowances and expenses	10,00
V.	Auditor's fees and expenses	50,00
VI.	Postage, Telegrams, Telephones etc.	12,50
	Total	4,59,50

Annexure I

Schedules forming part of Balance Sheet

Schedule 1 - Capital

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**For Nationalised Banks**		
	Capital (Fully owned by Central Government)		
II.	**For Banks Incorporated outside India**		
	Capital		
	(i) (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)		
	(ii) Amount of deposit kept with the RBI under Section 11(2) of the Banking Regulation Act, 1949		
	Total		
III.	**For other Banks**		
	Authorised Capital (___Shares of ₹ ____ each)		
	Issued Capital (___Shares of ₹ ____each)		
	Subscribed Capital (____Shares of ₹ ___ each)		
	Called-up Capital (____Shares of ₹ ___ each)		
	Less : Calls unpaid		
	Add : Forfeited shares		
	Total		

Schedule 2 - Reserves and Surplus

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**Statutory Reserves**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
II.	**Capital Reserves**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
III.	**Share Premium**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
IV.	**Revenue and other Reserves**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
V.	**Balance in Profit and loss Account**		
	Total : (I, II, III, IV and V)		

Schedule 3 - Deposits

			As on 31.3... (Current year)	As on 31.3... (Previous year)
A.	**I.**	**Demand Deposits**		
	(i)	***From banks***		
	(ii)	***From others***		
	II.	**Savings Bank Deposits**		
	III.	**Term Deposits**		
	(i)	***From Banks***		
	(ii)	***From others***		
		Total :(I, II and III)		
B.	(i)	Deposits of branches in India		
	(ii)	Deposits of branches outside India		
		Total		

Schedule 4 - Borrowings

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**Borrowings in India**		
	(i) Reserve Bank of India		
	(ii) Other banks		
	(iii) Other institutions and agencies		
II.	**Borrowings outside India**		
	Total : (I and II)		
	Secured borrowings included in I & II above - ₹		

Schedule 5 - Other Liabilities and Provisions

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	Bills payable		
II.	Inter-office adjustments (net)		
III.	Interest accrued		
IV.	Others (including provisions)		
	Total		

Schedule 6 - Cash and Balances with Reserve Bank of India

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**Cash in hand** (including foreign currency notes)		
II.	**Balances with Reserve Bank of India**		
	(i) In Current Account		
	(ii) In Other Accounts		
	Total : (I & II)		

Schedule 7 - Balances with Banks & Money at Call & Short Notice

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**In India**		
	(i) Balances with banks		
	(a) in Current Accounts		
	(b) in Other Deposit Accounts		
	(ii) Money at call and short notice		
	(a) with banks		
	(b) with other institutions		
	Total : (i & ii)		
II.	**Outside India**		
	(i) In Current Accounts		
	(ii) in other Deposits Accounts		
	(iii) Money at call and short notice		
	Total		
	Grand Total (I & II) :		

Schedule 8 - Investments

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**Investments in India in**		
	(i) Government securities		
	(ii) Other approved securities		
	(iii) Shares		
	(iv) Debentures and Bonds		
	(v) Subsidiaries and/or joint ventures		
	(vi) Others (to be specified)		
	Total		
II.	**Investments outside India in**		
	(i) Government securities (Including local authorities)		

			As on 31.3.... (Current year)	As on 31.3.... (Previous year)
	(ii)	Subsidiaries and/or joint ventures abroad		
	(iii)	Other investments (to be specified)		
	Total			
	Grand Total :(I & II)			

Schedule 9 - Advances

			As on 31.3.... (Current year)	As on 31.3.... (Previous year)
A.	(i)	Bills purchased and discounted		
	(ii)	Cash credits, overdrafts and loans repayable on demand		
	(iii)	Term loans		
	Total			
B.	(i)	Secured by tangible assets		
	(ii)	Covered by Bank/Government Guarantees		
	(iii)	Unsecured		
	Total			
C.	**I.**	**Advances in India**		
	(i)	***Priority Sectors***		
	(ii)	***Public Sector***		
	(iii)	***Banks***		
	(iv)	***Others***		
		Total		
	II.	**Advances outside India**		
	(i)	***Due from banks***		
	(ii)	***Due from others***		
		(a) Bills purchased and discounted		
		(b) Syndicated loans		
		(c) Others		
	Total			
	Grand Total :(C. I & II)			

Schedule 10 - Fixed Assets

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	**Premises**		
	At cost as on 31st March of the preceding year		
	Additions during the year		
	Deductions during the year		
	Depreciation to date		
II.	**Other Fixed Assets** (including Furniture and Fixtures)		
	At cost as on 31st March of the preceding year		
	Additions during the year		
	Deductions during the year		
	Depreciation to date		
	Total : (I & II)		

Schedule 11 - Other Assets

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	Inter-office adjustments (net)		
II.	Interest accrued		
III.	Tax paid in advance/tax deducted at source		
IV.	Stationery and stamps		
V.	Non-banking assets acquired in satisfaction of claims		
VI.	Others*		
	Total		

*In case there is any unadjusted balance of loss the same may be shown under this item with appropriate foot-note.

Schedule 12 - Contingent Liabilities

		As on 31.3.... (Current year)	As on 31.3.... (Previous year)
I.	Claims against the bank not acknowledged as debts		
II.	Liability for partially paid investments		

III.	Liability on account of outstanding forward exchange contracts		
IV.	Guarantees given on behalf of constituents		
	(a) In India		
	(b) Outside India		
V.	Acceptances, endorsements and other obligations		
VI.	Other items for which the bank is contingently liable		
	Total		

Annexure II

Schedules forming part of Profit and Loss Account

Schedule 13 - Interest Earned

		Year ended 31.3.... (Current year)	Year ended 31.3.... (Previous year)
I.	Interest/discount on advances/bills		
II.	Income on investments		
III.	Interest on balances with Reserve Bank of India and other inter-bank funds		
IV.	Others		
	Total		

Schedule 14 - Other Income

		Year ended 31.3.... (Current year)	Year ended 31.3.... (Previous year)
I.	Commission, exchange and brokerage		
II.	Profit on sale of investments		
	Less : Loss on sale of investments		
III.	Profit on revaluation of investments		
	Less : Loss on revaluation of investments		
IV.	Profit on sale of land, building and other assets		

	Less : Loss on sale of land, building and other assets		
V.	Profit on exchange transactions		
	Less : Loss on exchange transactions		
VI.	Income earned by way of dividends etc. from subsidiaries/companies and/or joint ventures abroad/in India		
VII.	Miscellaneous Income		
	Total		

Note : Under items II to V loss figures may be shown in brackets.

Schedule 15 - Interest Expended

		Year ended 31.3.... (Current year)	Year ended 31.3.... (Previous year)
I.	Interest on deposits		
II.	Interest on Reserve Bank of India/inter-bank borrowings		
III.	Others		
	Total		

Schedule 16 - Operating Expenses

		Year ended 31.3.... (Current year)	Year ended 31.3.... (Previous year)
I.	Payments to and provisions for employees		
II.	Rent, taxes and lighting		
III.	Printing and stationery		
IV.	Advertisement and publicity		
V.	Depreciation on Bank's property		
VI.	Director's fees, allowances and expenses		
VII.	Auditor's fees and expenses (including branch auditor's fees and expenses)		
VIII.	Law Charges		
IX.	Postages, Telegrams, Telephones, etc.		

X. Repair and maintenance

XI. Insurance

XII. Other expenditure

Total

In 'Notes on Accounts', the following disclosures should be made:

Annexure III

Guidelines of Reserve Bank of India for Compliance of Financial Statements

Given below are the compliance notes of the Reserve Bank of India for balance sheet and profit and loss account as per the revised formats.

Balance Sheet

Item	*Schedule*	*Coverage*	*Notes and instructions for compilation*
Capital	1	**Nationalised Banks** (Fully Owned by Central Government)	The capital owned by Central Government as on the date of the Balance Sheet including contribution from Government, if any, for participating in World Bank Projects should be shown.
		Banking companies incorporated outside	(*i*) The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head.
		Other Banks (Indian) Authorised Capital (....Shares or ₹ each) Issued Capital (..Shares of ₹.....each) subscribed Capital (......Shares of ₹....each) Called up Capital (..........Shares of ₹.......each. Less : Calls unpaid........Add: Forfeited shares.....Paid up to capital.........	(*ii*) The amount of deposits kept with RBI, under sub-section 2 of section 11 of the Banking Regulation Act, 1949 should also be shown. Authorised, Issued, Subscribed, Called-up Capital should be given separately. Calls-in-arrears will be deducted from Called up capital while the paid-up value of forfeited shares should be added thus arriving at the paid-up capital. Where necessary, items which can be combined should be shown under one head for instance 'Issued and Subscribed Capital'. **Notes - General** The changes in the above items, if any, during the year, say, fresh contribution made by Government, fresh issue of capital, capitalisation of reserves, etc. may be explained in the notes.
Reserves and Surplus	2	**(I) Statutory Reserves**	Reserves created in terms of Section 17 or any other section of Banking Regulation Act must be separately disclosed.

		(II) Capital Reserves	The expression 'capital reserves' shall not include any amount regarded as free for distribution through the profit and loss account. Surplus on revaluation should be treated as Capital Reserves. Such reserves will have to be reflected on the face of the balance sheet as revaluation reserves. Surplus on translation of the financial statements of foreign branches (which includes fixed assets also) is not a revaluation reserve.
		(III) Share Premium	Premium on issue of share capital may be shown separately under this head.
		(IV) Revenue and other Reserves	The expression 'Revenue Reserve' shall mean any reserve other than capital reserve. This item created will include all reserves other than those separately classified. The expression Reserve shall not include any amount retained by way of providing renewals or diminution in value of assets or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability. Excess provision towards depreciation on investments should be transferred to 'Investment Fluctuations Reserve Account' which should be shown as a separate item under the head 'Revenue and Other Reserves'. The amount held in 'Investment Fluctuation Reserve Account' could be utilized to meet the depreciation requirement on investment in securities in future. Extra provision needed in the event of depreciation in the value of the investment should be debited to the Profit and Loss Account and if required, an equivalent amount may be transferred from the 'Investment Fluctuation Reserve Account' to the Profit and Loss Account as a 'below the line' item after determining the profit for the year.
		(V) Balance of Profit	Includes balance of profit after appropriations. In case of loss the balance may be shown as a deduction.

			Notes – General Movements in various categories of Reserves should be shown as indicated in the schedule
Deposits	3 **A.**	**(I) Demand Deposits** (i) from banks (ii) from others	Includes all bank deposits repayable on demand. Includes all demand deposits of the non-bank sectors. Credit balances in over-drafts, cash credit accounts, deposits payable at call, overdue deposits, inoperative current accounts, matured time deposits and cash certificates, certificates of deposits, etc. are to be included under this category.
		(II) Saving Bank Deposits	
		(III) Term Deposits (i) from banks	Includes all types of bank deposits repayable after a specified term.
		(ii) from others	Includes all types of deposits of the non-bank sector repayable after a specified term. Fixed deposits, cumulative and recurring deposits, cash certificates, certificates of deposits, annuity deposits, deposits mobilised under various schemes, ordinary staff deposits, foreign currency non-resident deposits accounts, etc. are to be included under this category.
	B.	(i) Deposits of branches in India (ii) Deposits of branches outside India	The total of these two items will agree with the total deposits.
			Notes – General (*a*) Interest payable on deposits which is accrued but not due should not be included but shown under other liabilities. (*b*) Matured time deposits and cash certifica-tes, etc. should be treated as demand deposits. (*c*) Deposits under special schemes should be included under term deposits if they are not payable on demand. When each deposits have matured for payments they should be shown under demand deposits.

			(*d*) Deposits from banks will include deposits from the banking system in India, co-operative banks, foreign banks which may or may not have a presence in India.
Borrowings	4	**(I) Borrowings in India**	
		(i) Reserve Bank of India	Includes borrowings/refinance obtained from Reserve Bank of India.
		(ii) Other banks	Includes borrowings/refinance obtained from commercial banks (including cooperative banks).
		(iii) Other institutions and agencies	Includes borrowings/refinance obtained from Industrial Development Bank of India. Export-Import Bank of India, National Bank for Agriculture and Rural Development and other institutions, agencies (including liability against participation certificates, if any)
		(II) Borrowings outside India	Includes borrowings of India branches abroad as well as borrowings of foreign branches.
		Secured borrowings included above	This item will be shown separately. Includes secured borrowings/refinance in India and outside India.
			Notes – General (*i*)The total of I & II will agree with the total borrowings shown in the balance sheet. (*ii*) Inter-office transactions should not be shown as borrowings. (*iii*) Funds raised by foreign branches by way of certificates of deposits, notes, bonds, etc. should be classified depending upon documentation, as 'deposits' 'borrowings', etc. (*iv*) Refinance obtained by banks from Reserve Bank of India and various institutions are being brought under the head 'Borrowings'. Hence, advances will be shown at the gross amount on the assets side
Other liabilities and provisions	5	**I.** Bills payable	Includes drafts, telegraphic transfers, travellers' cheques, mail transfers payable, pay slips, bankers cheques and other miscellaneous items.
		II. Inter-office adjustment (net)	The inter-office adjustments balance, if in credit, should be shown under this head. Only

				net position of inter-office accounts, inland as well as foreign, should be shown here. In working out the net position, credit entries outstanding for more than five years in inter-branch accounts should be segregated and transferred to a separate Blocked Account. While arriving at the net amount of inter-branch transactions for inclusion under Schedule 5 or 11 as the case may be, the aggregate amount of Blocked Account should be excluded and only the amount representing the remaining credit entries should be netted against debit entries.
		III.	Interest accrued	Includes interest accrued but not due on deposits and borrowings.
		IV.	Others (including provisions)	(i) Includes the net provision for income tax and other taxes like interest tax (less advance payment tax deducted at source etc.), surplus in aggregate in provisions for bad debts provision account, surplus in aggregate in provisions for depreciation in securities, contingency funds which are not disclosed as a reserve but are actually in the nature of reserves, proposed dividend/ transfer to Government, other liabilities which are not disclosed under any of the major heads such as unclaimed dividend, provisions and fund kept for specific purposes, unexpired discount, outstanding charges like rent, conveyance etc. Certain types of deposits like staff security deposits, margin deposits, etc. where the repayment is not free, should also be included under this head. (ii) Provisions towards standard assets should be shown separately as 'Contingent Provisions against Standard Assets' under this ahead. (iii) Amount of subordinated debt raised as Tier II capital should be shown in Schedule 5 as well as by way of explanatory notes/remarks in the balance sheet. The Blocked Account arising from transfer of credit entries in inter-branch accounts outstanding for more than five years should be shown under this head. Any adjustment from the

			Blocked Account should be permitted only with the authorization of two officials one of whom should be from outside the branch concerned, preferably from the Controlling/Head Office if the amount exceeds Rupees one lakh. **Notes – General** (i) For arriving at the net balance of inter-office adjustments all connected inter-office accounts should be aggregated and the net balance only will be shown, representing mostly items in transit and unadjusted items. (ii)The interest accruing on all deposits, whether the payment is due or not, should be treated as a liability. (iii)It is proposed to show only pure deposits under this head 'deposits' and hence all surplus provisions for bad and doubtful debts, contingency funds, secret reserves, etc. which are not netted off against the relative assets, should be brought under the head 'Others (including provisions)'. (iv) The amount of subordinated debt raised against Tier II capital should be indicated.
Cash and Balances with the Reserve Bank of India	6	**I.** Cash in hand (including foreign currency notes) **II.** Balances with Reserve Bank of India (i) in Current Account (ii) in other Accounts	Includes cash in hand including foreign currency notes and also of foreign branches in case of banks having such branches.
Balances with banks and money at call and short notices	7	**I. In India** (i) Balances with banks (a) in current accounts (b) in other Deposit accounts (ii) Money at call and short notice (a) with banks (b) with other institutions	Includes all balances with banks in India (including co-operative banks). Balances in current accounts and deposit accounts should be shown separately. Includes deposits repayable within 15 days or less than 15 days notice lent in the inter-bank call money market.

		II. Outside India (i) Current accounts (ii) Deposits accounts	Includes balances held by foreign branches and balances held by Indian branches of the banks outside India. Balances held with foreign branches by other branches of the bank should not be shown under this head but should be included in inter-branch accounts. The amounts held in 'current accounts' and 'deposit accounts' should be shown separately.
		(iii) Money at call and short notice	Includes deposits usually classified in foreign countries as money at call and short notice.
Investments	8	**I. Investments in India** (i) Government securities	Includes Central and State Government securities and Government treasury bills. These securities should be shown at the book value. However, the difference between the book value and market value should be given in the notes to the balance sheet.
		(ii) Other approved securities	Securities other than Government securities, which according to the Banking Regulation Act, 1949 are treated as approved securities*, should be included here.
		(iii) Shares	Investments in debentures and bonds of companies and corporations not included in item (*ii*) should be included here.
		(iv) Debentures and Bonds	Investments in debentures and bonds of and corporations not included in item (*ii*) should be included here.
		(v) Investments in subsidiaries/joint ventures	Investments in subsidiaries/joint ventures (including RRBs) should be included here.
		(vi) Others	Includes residual investments, if any, like gold, commercial paper and other instruments in the nature of shares/ debentures/ bonds.
		II. Investments outside India	
		(i) Government securities (including local	All foreign Government securities including securities issued by local authorities may be

* As per Banking Law Amendments Act, 2012 "Approved Securities" mean the securities issued by the Central Govt. or such securities as prescribed by RBI from time to time.

		authorities)	
		(ii) Subsidiary and/ or joint ventures abroad	All investments made in the share capital of subsidiaries floated outside India and/or joint ventures abroad should be classified under this head.
		(iii) Others	All other investments outside India may be shown under this head. *Notes-General* Indicate the gross value of investments in India and outside India, the aggregate of provisions for depreciation separately on investments in India and outside India, and the net value of investments in India and outside India, the total of which will be carried to balance sheet. The gross value of investments and provisions need not, however, be shown against each of the categories specified in the Schedule. The break-up of net value of investments in India and outside India (gross value of investments less provision) under each of the specified category need only be shown.
Advances	9 **A.**	(i) Bills purchased and discounted (ii) Cash credits, over-drafts and loans repayable on demand	In classification under section 'A'. All out standings in India as well as outside less provisions made, will be classified under three heads as indicated and both secured and unsecured advances will be included under these heads.
		(iii) Term loans	Including overdue installments.
	B.	(i) Secured by tangible assets (includes advances against book debts)	All advances or part of advances which are secured by tangible assets may be shown here. The item will include advances in India
		(ii) Covered by Bank/ Government Guarantee	Advances in India and outside India to the extent they are covered by guarantees of Indian and foreign governments and Indian and foreign banks and DICGC & ECGC are to be included.
		(iii) Unsecured	All advances not classified under (*i*) and (*ii*) will be included here. Total of 'A' should tally with the total of 'B'.
	C.	**I.** Advances in India	Advances should be broadly classified into

		(i) Priority sectors (ii) Public sector (iii) Banks (iv) Others **II.** Advances outside India (i) Due from banks (ii) Due from others (a) Bills purchased and discounted (b) Syndicate loans (c) Others	'Advances in India, and 'Advances outside India'. Advances in India will be further classified on the sectoral basis as indicated. Advances on sectors which for the time being are classified as priority sectors according to the instructions of the Reserve Bank are to be classified under the head 'Priority sector'. Such advances should be excluded from item (ii) *i.e.,* advances to public sector. Advances to Central and State Governments and other Government undertaking including Government companies and corporations which are, according to the statutes, to be treated as public sector companies are to be included in the category "Public Sector". All advances to the banking sector including co-operative banks will come under the head 'Banks'. All the remaining advances will be included under the head 'Others' and typically this category will include non-priority advances to the private, joint and co-operative sectors. **Notes – General** (*i*) The gross amount of advances including refinance but excluding rediscounts provisions made to the satisfaction of auditors should be shown as advances. (*ii*) Term loans will be loans not repayable on demand. (*iii*) Consortium advances would be shown net of share from other participating banks/ institutions.
Fixed Assets	10	**I.** Premises (i) At cost as on 31st March of the preceding year (ii) Additions during the year (iii) Deductions during the year (iv) Depreciation to date **II.** Other Fixed	 Premises wholly or partly owned by the banking company for the purpose of business after the first balance sheet subsequent to the reduction or revaluation should show the revised figures for a period of five years with the date and amount of the revision made. Motor vehicles and other fixed assets other

		Assets(including furniture and fixtures) (i) At cost on 31st March of the preceding year (ii) Additions during the year (iii) Deductions during the year (iv) Depreciation to date	than premises but including furniture and fixtures should be shown under this head.
Other Assets	11	**I.** Inter-office adjustments (net)	The inter-office adjustments balance, if in debit, should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here. For arriving at the net balances of inter-office adjustment accounts, all connected inter-office accounts should be aggregated and the net balance, if in debit, only should be shown representing mostly items in transit and unadjusted items. In working out the net position, credit entries outstanding for more than five years in inter-branch accounts should be segregated and transferred to a separate Blocked Account. While arriving at the net amount of inter-branch transactions for inclusion under Schedule 5 or 11, as the case may be, the aggregate amount of Blocked Account should be excluded and only the amount representing the remaining credit entries should be netted against debit entries.
		II. Interest accrued	Interest accrued but not due on investments and advances and interest due but not collected on investments will be the main components of this item. As banks normally debit the borrowers' accounts with interest due on the balance sheet date, usually there may not be any amount of interest due on advances. Only such interest as can be realised on the ordinary course should be shown under this head.
		III. Tax paid in advance/tax deducted at source	The amount of tax deducted at source on securities, advance tax paid etc. to the extent that these items are not set off against relative tax provisions should be shown against this item.

		IV. Stationery and stamps	Only exceptional items of expenditure on stationery like bulk purchase of securities paper, loose leaf or other ledgers, etc. which are shown as quasi-asset to be written off over a period of time should be shown here. The value should be on a realistic basis and cost escalation should not be taken into account, as these items are for internal use.
		V. Non-banking assets acquired in satisfaction of claims.	Immovable properties/tangible assets acquired in satisfaction of claims are to be shown under this head.
		VI. Others	This will include items like claims which have not been met, for instance, clearing items, provision netted against this item so that only realisable value is shown under this head. Accrued income other than interest may also be included here. Outstanding in credit card operations should be shown as part of "advances" (Schedule instead of clubbing these under "Other Assets"
Contingent Liabilities	12	**I.** Claims against the bank not acknowledged as debts	
		II. Liability for partly paid investments	Liability on partly paid shares, debentures, etc. will be included under this head.
		III. Liability on account of outstanding forward exchange contracts	Outstanding forward exchange contracts may be included here.
		IV. Guarantees given on behalf of constituents (i) In India (ii) Outside India	Guarantees given for constituents in India and outside India may be shown separately.
		V. Acceptances endorsements and other obligations	This item will include letters of credit and bills accepted by the bank on behalf of customers.
		VI. Other items for which the Bank is contingently liable	Arrears of cumulative dividends, bills rediscounted, commitments under under-writing contracts, estimated amounts of contracts remaining to be executed on capital account and not provided for, etc. are to be included here.

Bills for Collection			Bills and other items in the course of collection and not adjusted will be shown against this item in the summary version only. No separate schedule is proposed.

Profit and Loss Account

Interest earned	13	**I.** Interest/discount on advances/bills	Includes interest and discount on all types of loans and advances like cash credit, demand loans, overdraft, export loans, term loans, domestic and foreign bills purchased and discounted (including those rediscounted), overdue, interest and also interest subsidy, if any, relating to such advances/bills.
		II. Income on Investments	Includes all income derived from the investment portfolio by way of interest and dividend
		III. Interest on balances with Reserve Bank of India and other Interbank funds	Includes interest on balances with Reserve Bank and other banks, call loans, money market placements, etc.
		IV. Others	Includes any other interest/discount income not included in above heads.
Other Income	14	**I.** Commission, exchange and brokerage	Includes all remuneration on services such as commission on collections, commission/exchange on remittances and transfers, commission on letter of credit and guarantees, commission on Government business commission on other permitted agency business including consultancy and other services, broke-rage, etc. on securities. It does not include foreign exchange income.
		II. Profit on sale of investments Less Loss on sale of investments	Includes profit/loss on sale of securities, furniture land and buildings, motor of vehicle, gold, silver etc.. Only the net position should be shown. If the net position is a loss, the amount should be shown as deduction.
		III. Profit on revaluation of investments Less: Loss on revaluation of investments	The net profit/loss on revaluation of assets may also be shown under this item.

		IV. Profit on sale of land, building and other assets Less : Loss on sale of land, buildings and other assets	
		V. Profit on exchange transactions Less : Loss on exchange transactions **VI.** Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	Includes profit/loss on dealing in foreign exchange all income earned by way of foreign exchange commission and charges on foreign exchange, transactions excluding interest which will be shown under interest. Only the net position should be shown. If the net position is a loss, it is to be shown as a deduction.
		VII. Miscellaneous income	Includes recoveries from constituents for the godown rents, income from bank's properties, security charges, insurance etc. and any other miscellaneous income. In case any item under this head exceeds one percentage of the total income, particulars may be given in the notes.
Interest Expended	15	**I.** Interest on deposits	Includes interest paid on all types of deposits including deposits from banks and others institutions.
		II. Interest on Reserve Bank of India/inter-bank borrowings	Includes discount/interest on all borrowings and refinance from Reserve Bank of India and other banks.
		III. Others	Includes discount / interest on all borrowings/refinance from financial institutions. All otherpayments like interest on participation certificates, penal interest paid, etc. may also be included here.
Operating expenses	16	**I.** Payments to and Provisions for employees	Includes staff salaries / wages, allowances, bonus, other staff benefits like provident fund, pension, gratuity liveries to staff, leave fare concessions, staff welfare, medical allowance to staff etc.
		II. Rent, taxes and lighting	Includes rent paid by the banks on building and other municipal and other taxes paid (excluding income tax and interest tax) electricity and other similar charges and levies. House rent allowance and other similar payments to staff should appear

			under the head 'Payments to and provisions for employees'.
		III. Printing and Stationery	Includes books and forms and stationery used by the bank and other printing charges which are not incurred by way of publicity expenditure.
		IV. Advertisement and publicity	Includes expenditure incurred by the bank for advertisement and publicity purposes including printing charges of publicity matter.
		V. Depreciation on Bank's property	Includes depreciation on bank's own property: motor cars and other vehicles, furniture, electric fittings, vaults, lifts, leasehold properties, non banking assets, etc.
		VI. Directors' fees, allowances and expenses	Includes sitting fees and all other items of expenditure incurred on behalf of directors. The daily allowances, hotel charges, conveyance charges, etc. which though in the nature of reimbursement of expenses incurred may be included under this head. Similar expenses of local Committee members may also be included under this head.
		VII. Auditors' fees and expenses (including branch auditors' fees and expenses)	Includes fees paid to the statutory auditors and branch auditors for professional services rendered and all expenses for performing their duties, even though they may be in the nature of reimbursement of expenses. If external auditors have been appointed by banks themselves for internal inspections and audits and other services the expenses incurred in that context including fees may not be included under this head but shown under 'other expenditure'.
		VIII. Law charges	All legal expenses and reimbursement of expenses incurred in connection with legal services are to be included here.
		IX. Postage, telegrams, telephones, etc.	Includes all postal charges like stamps, tele-gram, telephones, teleprinter, etc.
		X. Repairs and maintenance	Includes repairs to banks' property, their maintenance charges, etc..

		XI. Insurance	Includes insurance charges on bank's property, insurance premium paid to Deposit Insurance & Credit Guarantee Corporation, etc. to the extent they are not recovered from the concerned parties.
		XII. Other expenditure	All expenses other than those not included in any of the other heads like, licence fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc. may be included under this head. In case any particular item under this head exceeds one percentage of the total income particulars may be given in the notes.
Provisions and contingencies			Includes all provisions made for bad and doubtful debts, provisions for taxation, provisions for diminution in the value of investments, transfers to contingencies and other similar items.
Treatment of accumulated losses			While preparing the Balance Sheet and Profit and Loss Account accumulated losses should be brought forward under Item III or Form "B" before appropriation of the balance profit made.

Annexure IV

Risk Weights for Calculation of Capital charge for Credit Risk

The following table shows the weights to be assigned to the value of different assets and off-balance sheet items:

I. Domestic Operations

A. Funded Risk Assets

Sr. No.	Item of asset or liability	Risk Weight %
I	**Balances**	
1.	Cash, balances with RBI	0
2.	i. Balances in current account with other banks	20
	ii. Claims on Bank	20
II	**Investments (Applicable to securities held in HTM)**	
1.	Investments in Government Securities.	0

2.	Investments in other approved securities guaranteed by Central! State Government. Note: If the repayment of principal / interest in respect of State Government Guaranteed securities included in item 2, 4 and 6 has remained in default, for a period of more than 90 days banks should assign 100% risk weight. However the banks need to assign 100% risk weight only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government.	0
3.	Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This will include investments in Indira/Kisan Vikas Patra (IVP/KVP) and investments in Bonds and Debentures where payment of interest and principal is guaranteed by Central Govt.)	0
4.	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments.	0
5.	Investments in other approved securities where payment of interest and repayment of principal are not guaranteed by Central/State Govt.	20
6.	Investments in Government guaranteed securities of Government Undertakings which **do not** form part of the approved market borrowing programme.	20
7.	Claims on commercial banks. Note: The exposure of Indian branches of foreign banks, guaranteed/ counter-guaranteed by overseas Head Offices or the bank's branch in other country, would amount to a claim on the parent foreign bank and the risk weight of such exposure would depend upon the rating (assigned by the international rating agencies) of the overseas parent of the Indian branch.	20
8.	Investments in bonds issued by other banks	20

9.	Investments in securities which are guaranteed by banks as to payment of interest and repayment of principal.	20
10.	Investments in subordinated debt instruments and bonds issued by other banks or Public Financial Institutions for their Tier II capital.	100
11 .	Deposits placed with SIDBI/NABARD in lieu of shortfall in lending to priority sector.	100
12.	Investment in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are recognised and supervised by National Housing Bank	50
13	Investment in Mortgage Backed Securities (MBS) which are backed by housing loan qualifying for 50% risk weight.	50
14.	Investment in securitised paper pertaining to an infrastructure facility.	50
15	Investments in debentures/ bonds/ security receipts/ Pass Through Certificates issued by Securitisation Company / SPVs/ Reconstruction Company and held by banks as investment	100
16.	All other investments including investments in securities issued by PFIs.	100
	Note: Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital should be assigned zero weight	
17	Direct investment in equity shares, convertible bonds, debentures and units of equity oriented mutual funds	125
18	Investment in Mortgaged Backed Securities and other securitised exposures to Commercial Real Estate	150
19	Investments in Venture Capital Funds	150
20	Investments in Securities issued by SPVs (in respect of securitisation of standard assets) underwritten and devolved on originator banks during the stipulated period of three months	100
21	Investments in Securities issued by SPVs in respect of securitisation of standard asset underwritten and devolved on bank as third party service provider during the stipulated period of three months	100
22	NPA Investment purchased from other banks	100

23	Investments in instruments issued by NBFC-ND-SI	100
III	**Loans & Advances** including bills purchased and discounted and other credit facilities	
1.	Loans guaranteed by Govt. of India Note: The amount outstanding in the account styled as "Amount receivable from Government of India under Agricultural debt Waiver Scheme 2008" shall be treated as a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms.	0
2.	Loans guaranteed by State Govts. Note: If the loans guaranteed by State Govts. have remained in default for a period of more than 90 days a risk weight of 100 percent should be assigned.	0
3.	Loans granted to public sector undertakings of Govt. of India	100
4.	Loans granted to public sector undertakings of State Govt.	100
	(i) For the purpose of credit exposure, bills purchased/discounted	
5.	/negotiated under LC (where payment to the beneficiary is not under reserve) is treated as an exposure on the LC issuing bank and assigned risk weight as is normally applicable to inter-bank exposures. (ii) Bills negotiated under LCs 'under reserve', bills purchased/discounted/negotiated without LCs, will be reckoned as exposure on the borrower constituent. Accordingly, the exposure will attract a risk weight appropriate to the borrower. (i) Govt. (ii) Banks (iii) Others	20 20 100
6.	Others including PFIs	100
7.	Leased Assets	100

8.	Advances covered by DICGC/ECGC Note: The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstandings in excess of the amount guaranteed, will carry 100% risk weight.	50
9.	SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries (CGTSI) up to the guaranteed portion. **Note:** Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter- party.	0
10.	Insurance cover under Business Credit Shield, the product of New India Assurance Company Ltd. ***Note:*** The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstandings in excess of the amount guaranteed, will carry 100% risk weight.	50
11 12.	Advances against term deposits, Life policies, NSCs, IVPs and KVPs where adequate margin is available. Loans and Advances granted to staff of banks which are fully covered by superannuation benefits and mortgage of flat/house.	0 20
13.	Housing loans above ₹30 lakh sanctioned to individuals against the mortgage of residential housing properties having LTV ratio equal to or less than 75% Note: If restructured	75 100
14	Housing loans upto ₹30 lakhs sanctioned to individuals against the mortgage of residential housing properties having LTV ratio equal to or less than 75%. Note: If restructured	50 75
15	Housing loans of ₹ 75 lakhs and above sanctioned to individuals (irrespective of LTV ratio)	125

16	Consumer credit including personal loans and credit cards	125
16A	Educational Loans	100
17	Loans up to ₹.1 lakh against gold and silver ornaments	50
18	Takeout Finance	
	(i) Unconditional takeover (in the books of lending institution) (a) Where full credit risk is assumed by the taking over institution (b) Where only partial credit risk is assumed by taking over institution i) the amount to be taken over ii) the amount not to be taken over	20 20 100
	(ii) Conditional take-over (in the books of lending and Taking over institution)	100
19	Advances against shares to individuals for investment in equity shares (including IPOs/ESOPs), bonds and debentures, units of equity oriented mutual funds, etc.	125
20	Secured and unsecured advances to stock brokers	125
21	Fund based exposures commercial real estate*	100
22	Funded liquidity facility for securitisation of standard asset transactions	100
23	NPA purchased from other banks	100
24	Loans & Advances NBFC-NO-SI (other than Asset Finance Companies (AFCs)) &	100
25	All unrated claims on corporate, long term as well as short term, regardless of the amount of the claim	100
IV	**Other Assets**	
1.	Premises, furniture and fixtures	100
2.	Income tax deducted at source (net of provision)	0
	Advance tax paid (net of provision)	0
	Interest due on Government securities	0
	Accrued interest on CRR balances and claims on RBI on account of Government transactions (net of claims of	0

	Government/RBI on banks on account of such transactions)	
	All other assets #	100

i) The exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. CBIOs, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures;

ii) The deposits / collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of CCII, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.

& As regards claims on AFCs, there is no change in the risk weights, which would continue to be governed by the credit rating of the AFC, except the claims that attract a risk weight of 150 per cent under the New Capital Adequacy Framework, which shall be reduced to a level of 100 per cent.

* It is possible for an exposure to get classified simultaneously into more than one category, as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory / prudential exposure limit, if any, fixed by RBI or by the bank itself, for all the categories to which the exposure is assigned. For the purpose of capital adequacy, the largest of the risk weights applicable among all the categories would be applicable for the exposure.

Off-Balance Sheet Items

The credit risk exposure attached to off-Balance Sheet items has to be first calculated by multiplying the face value of each of the off-Balance Sheet items by 'credit conversion factor' as indicated in the table below. This will then have to be again multiplied by the weights attributable to the relevant counter-party as specified above.

S No.	Instruments	Credit conversion factor
1.	Direct credit substitutes e.g. general guarantees of indebtedness*	100
(i)	Guarantees for credit facilities	
(ii)	Guarantees in lieu of repayment of financial securities;	
(iii)	Guarantees in lieu of margin requirements of exchanges;	

(iv)	Guarantees for mobilisation advance, advance money before the commencement of a project and for money to be received in various stages of project implementation;	
(v)	Guarantees towards revenue dues, taxes, duties, levies etc. in favour of Tax/ Customs / Port / Excise Authorities and for disputed liabilities for	
(vi)	Credit Enhancements;	
(vii)	Liquidity facilities for securitisation transactions;	
(viii)	Acceptances (including endorsements with the character of acceptance);	
(ix)	Deferred payment guarantees.	
2.	Certain transaction-related contingent items(performance Guarantees)*	50
(i)	Bid bonds;	
(ii)	Performance bonds and export performance guarantees;	
(iii)	Guarantees in lieu of security deposits / earnest money deposits (EMD) for participating in tenders;	
(iv)	Retention money guarantees;	
(v)	Warranties, indemnities and standby letters of credit related to particular transaction.	
3.	Short-term self-liquidating trade-related contingencies (such as documentary credits collateralized by the underlying shipments).	20
4.	Sale and repurchase agreement and asset sales with recourse the credit risk remains with the bank., where	100
5.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown.	100
6.	Note issuance facilities and revolving underwriting facilities.	50
7.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year.	50
8.	Similar commitments with an original maturity upto one year, or which can be unconditionally cancelled at any time.	0

* An indicate list of financial and performance guarantees given under circular no. DBOD. No. BP. BC.89.21.04.009 dated April 2, 2013.

9.	Aggregate outstanding foreign exchange contracts of original maturity -	
	• less than one year	2
	• for each additional year or part thereof	3
10.	Take-out Finance in the books of taking-over institution	
	(i) Unconditional take out finance	100
	(ii) Conditional take out finance	50
	Note: As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.	
11	Non-Funded exposures to commercial real estate	150
12	Guarantees issued on behalf of stock brokers and market makers	125
13	Commitment to provide liquidity facility for secuitisation of standard asset transactions	100
14	Second loss credit enhancement for securitisation of standard asset transactions provided by third party	100
15	Non-funded exposure to NBFC-ND-SI	125

NOTE: In regard to *off-balance* sheet items, the following transactions with non-bank counterparties will be treated as claims on banks and carry a risk-weight of 20%

- Guarantees issued by banks against the counter guarantees of other banks.
- Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank.

In all the above cases banks should be fully satisfied that the risk exposure is in fact on the other bank.

Risk weights for Open positions

Sr. No.	Item	Risk weight (%)
1.	Foreign exchange open position.	100
2.	Open position in gold *Note:* The risk weighted position both in respect of foreign exchange and gold open position limits should be added to the other risk weighted assets for calculation of CRAR	100

I.D. Risk weights for Forward Rate Agreement (FRA) / Interest Rate Swap (IRS)

For reckoning the minimum capital ratio, the computation of risk weighted assets on account of FRAs/IRS should be done as per the two steps procedure set out below:

Step 1

The notional principal amount of each instrument is to be multiplied by the conversion factor given below:

Original Maturity	Conversion Factor
Less than one year	0.5 per cent
One year and less than two years	1.0 per cent
For each additional year	1.0 per cent

Step 2

The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as specified below:

Counter party	Risk weight
Banks	20 percent
Central & State Govt.	0 percent
All others	100 percent

II. Overseas operations (applicable only to Indian banks having branches abroad)

A. Funded Risk Assets

Sr. No.	Item of asset or liability	Risk %
i)	Cash	0
ii)	Balances with Monetary Authority	0
iii)	Investments in Government securities	0
iv)	Balances in current account with other banks	20
v)	All other claims on banks including but not limited to funds loaned in money markets, deposit placements, investments in CDs/FRNs. Etc.	20
vi)	Investment in non-bank sectors	100
vii)	Loans and advances, bills purchased and discounted and other credit facilities	
	a) Claims guaranteed by Government of India.	0
	b) Claims guaranteed by State Governments	0

	c) Claims on public sector undertakings of Government of India.	100
	d) Claims on public sector undertakings of State Governments	100
	e) Others	100
viii)	All other banking and infrastructural assets	100

B. Non-funded risk assets

Sr. No.	Instruments	Credit Conver Factor
i)	Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances)	100
ii)	Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)	50
iii)	Short-term self-liquidating trade related contingencies- such as documentary credits collateralised by the underlying shipments	20
iv)	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank.	100
v)	Forward asset purchases, forward deposits and partly paid shares securities, which represent commitments with certain draw down	100
vi)	Note issuance facilities and revolving underwriting facilities	50
vii)	Other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year.	50
viii)	Similar commitments with an original maturity up to one year, or which can be unconditionally cancelled at any time.	0

SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries <u>(CGTSI) - Risk weights and Provisioning norms</u>

Risk-weight Example I

CGTSI Cover: 75% of the amount outstanding or 75% of the unsecured amount or ₹18.75 lakh . whichever is less

Realisable value of Security

a)	Balance outstanding	: ₹1.50 lakh
b)	Realisable value of security	: ₹ 10.00 lakh
c)	Unsecured amount (a) - (b)	: ₹ 1.50 lakh
d)	Guaranteed portion (75% of (c)	: ₹ 6.38 lakh
e)	Uncovered portion (8.50 lakh - 6.38 lakh)	: ₹ 2.12 lakh
	Risk-weight on (b) and (e)	- Linked to the counter party
	Risk-weight on (d)	- Zero

Example II

CGTSI cover : 75% of the amount outstanding or 75% of the unsecured amount or ₹ 18.75 lakh whichever is less

Realisable value of Security		*: ₹ 10.00 lakh.*
a)	*Balance outstanding*	*: ₹ 40.00 lakh*
b)	*Realisable value of security*	*: ₹ 10.00 lakh*
c)	*Unsecured amount (a) - (b)*	*: ₹ 30.00 lakh*
d)	*Guaranteed portion (max.)*	*: ₹ 18.75 lakh*
e)	*Uncovered portion (₹ 30 lakh-18.75 lakh)*	*: ₹ 11.25 lakh*
Risk-weight (b) and (e)		*- Linked to the counter party*
Risk-weight on (d)		*- Zero*